BOOK-KEEPING

AND

OFFICE WORK

A COMPREHENSIVE AND UP-TO-DATE WORK ON MODERN OFFICE DUTIES, INCLUDING BOOK-KEEPING

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CHAPTER XXV

AVERAGE DUE DATE

It occasionally happens in business that a merchant, who owes various amounts on different dates wishes to know when one single amount can be paid in lieu of the several payments on these different dates. This is known as the average due date, and is the "mean," or "equated" date.

The average due date method of payment is used in the settlement of bills and contra accounts, and for calculating interest (*a*) on the realization of book-debts in a partnership liquidation, (*b*) on partner's drawings.

Method of Working

The process of working is as follows—

1. Take any convenient date, preferably the first due date of one of the transactions, as a "zero date" or starting-point.
2. Multiply the amount of each transaction by its number of days from the starting-point. Fractions of a pound under ten shillings are ignored; fractions of ten shillings and over are counted as another pound.
3. Add up these various products into one total.
4. Add up the amounts of the various transactions into one total.
5. Divide the total of the products by the total amount of the transactions, taking each total to the nearest pound before dividing.
6. The result will be the number of days that the average due date is from the starting-point. This date can then be calculated, fractions of a day, if over half, being counted as another day, and fractions less than a half being ignored.

Varying Zero Dates

If we base our calculations on the *first* due date as the starting-point, the result will be the number of days that the average due date is *subsequent* to the "zero date" or starting-point.

If our calculations are based on the *last* due date as the starting-point, the result will be the number of days that the average due date is *previous* to the starting-point.

If, however, we take an *intermediate* date as the *époque* or fixed starting-point, then we must find the difference between the two lots of products, i.e. between the total of those previous to the *époque* and the total of those subsequent to the *époque*. The balance will incline to the side of the greater total of products.

If the products *previous* to the *époque* transaction are the greater, the average due date will be *prior* to the starting-point; if the products *subsequent* to the *époque* transaction are the greater, then the average due date will be *subsequent* to the starting-point.

Mixed Debit and Credit Items

The method of working detailed above applies to those transactions which are either all debits or all credits. Where there are both debit and credit items, a starting-point must be fixed, either an inside date or an outside date, but preferably the first due date, whichever side it is on. Each side must then be dealt with separately, thus obtaining products on each side of the Account in the usual way. The balance of the products must then be divided by the balance of the money columns. The result will be the number of days that the average due date is from the "zero date" or starting-point.

The following example will illustrate the different methods.

Worked Example 1

A merchant has purchased goods the due dates of which are as stated—

March 15	Goods value	£228,	due	18th April.
April 21	,,	,,	£148	,,	24th May
27	,,	,,	£216	,,	30th June.
May 15.	,,	,,	£372	,,	18th July.

He wishes to give a bill for the total amount due, the bill to be payable on the average due date.

1. Take 18th April as starting-point.

April 18 =	0	days	from	starting-point.
May 24 =	36	,,	,,	,,
June 30 =	73	,,	,,	,,
July 18 =	91	,,	,,	,,

Amounts		*Days*		*Products*
£228	×	0	=	0
148	×	36	=	5,328
216	×	73	=	15,768
372	×	91	=	33,852
£964				54,948

54,948 ÷ 964 = 57 exactly. The average due date is, therefore, 57 days from starting-point. Calculating this, we find the average due date is the 14th June, i.e. 12 in April, 31 in May, 14 in June.

2 Take 18th July as starting-point.

Amounts		*Days*		*Products*
£228	×	91	=	20,748
148	×	55	=	8,140
216	×	18	=	3,888
372	×	0	=	0
£964				32,776

32,776 ÷ 964 = 34 exactly. The average due date is, therefore, 34 days *prior* to 18th July. This works out to 16 days from the end of June (18 in July and 16 in June). June 30th – 16th = 14th June, as before.

3. Take 30th June as starting-point.

Amounts		*Days*		*Products*
£228	×	73	=	16,644
148	×	37	=	5,476
216	×	0	=	0
372	×	18	=	6,696
£964				15,424

The number 15,424 is the difference between the totals of the products previous to the starting-point and subsequent to it (22,120 – 6,696). The balance belongs to the side of the greater products, and the due date in this case will consequently be *previous* to the starting-point.

15,424 ÷ 964 = 16 exactly. The average due date is, therefore, June 30th – 16th = 14th June, as in the two previous cases.

The next example shows how the method may be applied to the calculation of interest on the drawings of a partner.

Worked Example 2

G. Reame, a partner in the firm of Tuller & Co., has, during the year drawn for his own use the following sums—

Jan. 17.	£26.	July 18	£30.
Feb. 25.	£20.	Aug 25.	£25.
Mar. 15.	£35	Sept. 20.	£32.
April 19.	£18.	Oct. 16.	£19.
May 14.	£25.	Nov. 21.	£24.
June 23.	£16	Dec. 25.	£33.

He is to be charged interest thereon at 5 per cent per annum up to the end of the year. The interest is to be worked by the average due date method.

Amounts		*Days*		*Products*
£26	×	348	=	9,048
20	×	309	=	6,180
35	×	291	=	10,185
18	×	256	=	4,608
25	×	231	=	5,775
16	×	191	=	3,056
30	×	166	=	4,980
25	×	128	=	3,200
32	×	102	=	3,264
19	×	76	=	1,444
24	×	40	=	960
33	×	6	=	198
£303				52,898

52,898 ÷ 303 gives 174½ days from 1st Jan. as the average due date. Interest on £303 at 5 per cent per annum for 174½ days (Table, page 332) = 303 × (·023835 + ·000069) = 303 × ·023904 (the ½ day kept merely for the sake of proof) = £7·243 = £7 4s. 10½d.

Let us now verify the above result by calculating the interest by means of the product method, thus—

$$\frac{52898 \times 10}{73000} = £7{\cdot}246 = £7\ 4s\ 11d$$

Let us next verify the result by ascertaining the interest on each item separately (Tables, pages 328 and 332)—

Date	Days	Amount		Decimals for £1		Interest £	s	d.
		£						
Jan. 17	348	26	×	·047671	=	1	4	9¼
Feb. 25	309	20	×	·042328	=		16	11¼
Mar. 15	291	35	×	·039863	=	1	7	10¾
April 19	256	18	×	·035068	=		12	7½
May 14	231	25	×	·031643	=		15	9¾
June 23	191	16	×	·026164	=		8	4½
July 18	166	30	×	·022739	=		13	7¾
Aug. 25	128	25	×	·017534	=		8	9
Sept. 20	102	32	×	·013972	=		8	11¼
Oct. 16	76	19	×	·010411	=		3	11½
Nov. 21	40	24	×	·005479	=		2	7½
Dec 25	6	33	×	·000822	=			6½
		£303				£7	4	10½

In the next example, the settlement of a contra account is shown.

Worked Example 3

D. Reele sells Goods to A. Greabe, as under—

Jan. 4. £265 17s. 11d. Mar. 24. £247 16s. 11d.
Feb. 18 £194 2s. 7d.

He also buys goods from A. Greabe, as follows—

Jan. 23	£140 18s. 6d.	April 18	£87 10s 8d
Mar. 10	£217 8s 3d.		

Reele's terms are bill at 2 m/d, but Greabe's terms are bill at 1 m/d. Both parties, however, desire payment to be made at the equated date. When will this be, and what will be the amount ?

17,816 ÷ 262 = 68 exactly. Sixty-eight days from starting-point = 5th May (2 in Feb., 31 in March, 30 in April, and 5 in May). On 5th May, then, Greabe must pay Reele £262.

Dr. A. GREABE IN ACCOUNT CURRENT WITH D. REELE *Cr.*

Date	Item	Amount £	s	d	Due Dates	Days	Products	Date	Item	Amount £	s	d	Due Dates	Days	Products
19 .		£	*s*	*d*	19 .			19..		£	*s*	*d*	19 .		
Jan 4	To Goods .	265	17	11	Mar 7	9	2,394	Jan 23	By Goods .	140	18	6	Feb 26	SP	
Feb 18	,, Goods .	194	2	7	April 21	54	10,476	Mar 10	,, Goods .	217	8	3	April 13	46	9,982
Mar 24	,, Goods .	247	16	11	May 27	90	22,320	April 18	,, Goods .	87	10	8	May 21	84	7 392
									,, Balance c/d .	262	–	–			17,816
		£707	17	5			35,190			£707	17	5			35,190
	To Balance b/d .	262	–	–											

Average Due Date and the Table of Days

The Table of Days on page 328 will be found useful in ascertaining quickly and correctly the *day* and the *month* of the average due date. Let us, by way of illustration, refer to Worked Example 1, on page 338. We have to find the average due date which the result shows is 57 days from the starting point, namely, 18th April. From the Table—

Number corresponding to 18th April
$= 108;\ 108 + 57 = 165$
Date corresponding to the number 165
= 14th June.

Again, in Worked Example 3 (above), the result shows that the average due date is 68 days from starting point, namely, 26th Feb. From the Table—

Number corresponding to 26th February
$= 57;\ 57 + 68 = 125$
Date corresponding to the number 125
= 5th May.

Average Due Date and Interest Adjustment

It is, of course, quite impossible to make a payment on a certain date, when that date has already passed. In such cases, therefore, in order to adjust the rights of the parties concerned, interest is brought into account, at a rate agreed upon, from the average due date up to the actual date of payment. For example—

		£	s	d
Balance due for payment on average due date, 4th May . . .	*Dr.*	265	13	9
Add Interest at 5 per cent to 31st May (27 days) $\frac{266 \times 27 \times 10}{73000}$; or £·003698 × 266 ; = £·984	*Dr.*		19	8
Amount payable on 31st May	*Dr*	£266	13	5

Again, supposing, for good reasons, that it is desired to close the account earlier than the date of the average due date payment, then, in such cases, interest would have to be *deducted*, in order to compensate for the premature payment. For example—

		£	s.	d.
Balance due for payment on average due date, 4th May . . .	*Dr.*	265	13	9
Less Interest at 5 per cent from 31st March (34 days) $\frac{266 \times 34 \times 10}{73000}$, or £·004657 × 266 , = £1·239	*Cr*	1	4	9
Amount payable on 31st March	*Dr.*	£264	9	–

Principle of the Equation of Payments

The principle of the Equation of Payments, on which the rule for Average Due Date is based, is founded on the assumption that Interest on that part of the Account, which is *overdue* at the "mean" or "middle" date, is exactly equal to the Interest on the other part of the Account, which is *not due* at such "equated" date.

Let us, by way of illustration, test this, by applying it in proof of Worked Example 1 on page 338. The "mean" or "middle" date is there stated to be 14th June. We will, therefore, divide our Account into two "equated" parts, the part *overdue*, and the part *not due*, with 14th June as the dividing line, or

"equated" date, and work out interest on both parts, as shown below.

As the products agree, there is no need to go any further; for whatever rate of interest is taken, the result will naturally be the same, since the products are already the same.

Proof of Worked Example 3

In this example, on page 339, the Average Due Date is stated to be the 5th May. Now, if the principle of the Equation of Payments is true, then at 5th May, ***the equated date***, the Interest on the debit items should be ***exactly equal*** to the Interest on the credit items. Let us suppose the rate to be 5 per cent per annum, and let us calculate the actual £ s. d. figures, as shown below.

Thus, if £262, the balance without interest, be paid on 5th May, there is neither gain nor loss to either party, but exact equality of treatment, or, in other words, strict equity of payment.

OVERDUE ITEMS (Interest *to* 14th June)				NOT DUE ITEMS (Interest *from* 14th June)			
Due Dates	Amounts	Days	Products	Due Dates	Amounts	Days	Products
	£				£		
April 18	228	57	12,996	June 30	216	16	3,456
May 24	148	21	3,108	July 18	372	34	12,648
			16,104				16,104

DEBIT (Interest *to* 5th May)						CREDIT (Interest *to* 5th May)					
Due Dates	Amounts	Days	Interest			Due Dates	Amounts	Days	Interest		
19..	£		£	s	d.	19..	£		£	s.	d.
Mar. 7	266	59	2	3	–	Feb. 26	141	68	1	6	3
April 21	194	14		7	5	April 13	217	22		13	1
May 27	248	**22**		**14**	**11**	May 21	88	**16**		**8**	**10**
Red Ink Interest (heavy type, Contra)				3	10	Red Ink Interest (heavy type, Contra)				14	11
			£2	14	3				£2	14	3

CHAPTER XXVI

MANUFACTURING AND WORKING ACCOUNTS

LOSSES on swings balanced by gains on the roundabouts may satisfy the showman, but the modern up-to-date business man is not usually content with this loose method.

To make a profit of £1,500 on a year's trading may seem satisfactory until the discovery is made that on one part of the business the profit was really £3,000, and the loss on the other part was £1,500. The modern trader fears that in greater or lesser degree this sort of thing may be going on all the time.

Whereas it used to be said that "a final profit on the year is really a sum of a great number of small profits." But nowadays nearly every one suspects that a final profit is really a *difference* between two sums: in which a total of profits on one side is diminished by a total of losses on the other. When a man discovers that his profit of £1,500 really represents a gain of £3,000 in one department reduced by a loss of £1,500 in another; should there happen to be a clear cut distinction between those two departments, he knows that his chief energies must be devoted to changing the character of the department in which money is lost.

But usually his problem is not one of dealing with a defined part of his business. Losses and profits may be intertwined right through the whole of his operation. A man working at a bench this week may be engaged on labour that swells the profits, while last week his work was helping to increase the loss.

The only way in which the business man can ascertain the truth about his methods is the method of analysis. Hence the increasing attention that is being given to Trading, Profit and Loss, Manufacturing, Working, and Cost Accounts.

It is admitted that in many cases analysis may be carried too far. A retailer who works out to decimal points the percentage on every line in his shop, and orders goods accordingly, may not ultimately do as well as his neighbour who stocks the most popular lines and gives the customers what they ask for.

Equally the traveller whose two lines give him 5 per cent and 7½ per cent respectively, is usually wise to forget all about the percentage, when he is face to face with a customer, and minutes are few.

A manufacturer once said: "Of course, I give over value in some cases, but that tells in other ways. The act may be unintentional, but it probably brings me some benefit."

Such broad, generous understandings of commerce have always their place, and even where the trader knows exactly what he is doing, he may be content to have his cut lines or to run a convenient department at a slight loss.

The value of analysis is to provide the precise knowledge upon which business policy can be built up.

Aspects of Analysis

There are two aspects of analysis, which may be spoken of as the comparative and the progressive.

The comparative survey compares article with article and job with job. It enables a man to say: "I lost on this commodity or department or contract, but I gained on the other commodity, department or contract."

The progressive deals with stages, as: "We only made a small profit in manufacturing, but we did exceptionally well in marketing."

For example of the comparative—

A biscuit manufacturer has a hundred lines on his list. All those biscuits differ, some may be almost entirely flour and water, while others are compounded of eggs, butter, cocoa nut, chocolate, and other costly ingredients.

He may see them as all different in cost and priced in rises of a few shillings a hundredweight from the cheapest to the dearest.

He knows that the prices of ingredients constantly vary and the ratio of cost to selling price may be fluctuating almost daily throughout his list.

He may roughly divide the whole into, say, three groups: (1) plain biscuits; (2) biscuits with medium priced ingredients; and (3) biscuits with costly ingredients.

But ultimately such a rough analysis might not satisfy him. He would take measures to secure some data that would give him a better check upon profits and losses.

This kind of comparative analysis is common among many traders and manufacturers, and very often in its crudest form has some value.

The shopkeeper who reasons: "In order to

obtain my necessary 20 per cent on turnover I must add 25 per cent to the purchase price," where he finds that one line will only allow 20 per cent to be added, may deduct another that permits of 30 per cent, and mentally estimate that as the sales are about equal he has achieved his end. But where more precise knowledge is necessary the analysis must be more searching. The application of analysis to the progressive stages through which the goods may pass is an interesting study in itself.

Just as a biscuit manufacturer can cost each separate kind of biscuits he makes, as compared with the other kinds, so he should be able to cost each particular stage of each kind, from its arrival in his factory in the form of raw material, to its final disposal at his customers warehouse or shop.

Sound accountancy has always realized that there should be a break in the Trading and Profit and Loss Account; a place where a balance may be brought down as gross profit. This is a recognition, for example, that money paid to a man for work that increases the value of a commodity, or changes raw material into marketable goods, has a different meaning from money paid to a clerk for doing the general clerical work in an office.

Some manufacturers find that a Manufacturing Account is more serviceable than a Trading Account, because, as it deals more closely with raw materials, it better enables them to decide which goods pay to manufacture, and which goods should be bought ready-made.

What a Manufacturing Account Is

A Manufacturing Account is an account constructed in order to arrive at the prime cost of an article or goods that have been manufactured or produced.

Strictly speaking, it deals only with raw materials, the charges on them, and the direct expenses of production, such as manufacturing wages. The term " Manufacturing Account " is merely a general term, specific names being used in different businesses. Where, instead of one commodity, numerous articles are being made, the Manufacturing Account is not so suitable, and is, therefore, replaced by a system of Cost Accounts.

Prime Cost, On-Cost, Cost of Production

These terms, when used by different accountants, have sometimes a slightly different meaning.

" Prime Cost " usually means cost of raw materials, *plus* the charges on same, *plus* productive or manufacturing wages.

" On-cost " denotes all expenses connected with production and distribution. These expenses and the " loading " or profit, when added to the prime cost, give the selling price. Selling price is, therefore, prime cost, *plus* on-cost, *plus* profit. It is quite usual, however, to find " On-cost " divided into two kinds, factory and general.

" Factory On-cost " comprises all expenses directly or indirectly connected with manufacture. These items include Rent, Rates, and Taxes of factory; Gas, Water, Fuel, Motive Power, Lighting and Heating of factory; Patent Fees, Wayleaves, and Royalties on manufacture, and Wages and Salaries of foremen, timekeepers, watchmen, etc.; Repairs, Renewals, and Depreciation of Plant and Machinery, Tools, etc.; Interest on Capital outlay on Land and Buildings, Plant and Machinery, Tools, etc.

" General On-cost " includes all expenses of selling, distribution, and administration.

In some cases, therefore, Factory On-cost forms part of the prime cost, or, as it is then often called, " Cost of Production."

Selling Price is thus cost of production (prime cost plus factory on-cost), *plus* general on-cost, *plus* profit.

The following *pro forma* example will serve to illustrate the above explanations—

MANUFACTURING ACCOUNT

(*a*) PRIME COST ACCOUNT

Dr.	£	s.	d.	*Cr.*	£	s.	d.
To Stocks at Start—				By Stocks at Finish—			
Raw Materials	5,742	10	8	Raw Materials	4,987	12	6
Partly Manufactured Goods . .	7,859	11	2	Partly Manufactured Goods .	9,856	11	2
,, Purchases of Raw Materials . .	20,667	14	11				
,, Freight and Carriage on Raw Materials	387	16	3		14,844	3	8
,, Productive Wages	20,596	8	10	,, Balance (Prime Cost of Goods Manufactured) Transferred to Account (*b*)	40,409	18	2
£	55,254	1	10	£	55,254	1	10

Dr. (*b*) COST OF PRODUCTION ACCOUNT *Cr.*

	£	s.	d.		£	s	d
To Prime Cost of Goods Manufactured as per Account (*a*)	40,409	18	2	By Proportion of Factory Oncost on Partly Manufactured Goods (£9,856/11/2) carried forward	1,637	12	3
,, Proportion of Factory Oncost on Partly Manufactured Goods (£7,859/11/2) brought forward	1,268	12	9	,, Balance (Cost of Production of Goods Manufactured) carried to Trading Account	48,125	16	1
,, Factory Oncost—							
Rent, Rates, Taxes, and Insurance	1,075	3	6				
Gas, Fuel, Water, Lighting, and Heating	1,123	10	8				
Patent Royalties	279	15	4				
Wages and Salaries	1,654	12	6				
Repairs, Renewals, and Depreciation of Tools and Machinery, etc.	1,587	3	9				
Interest on Capital Outlay in Plant and Machinery, Tools, Land, and Buildings	2,364	11	8				
£	49,763	8	4	£	49,763	8	4

Dr TRADING ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Stock of Manufactured Goods at Start	4,862	12	6	By Sales £68,626 11 4; *Less* Returns 1,857 2 9	66 769	8	7
,, Manufacturing Account: Cost of Goods Manufactured as per Account (*b*)	48,125	16	1	,, Stock of Manufactured Goods at Finish	5,381	10	8
,, Balance (Gross Profit)	19,162	10	8				
£	72,150	19	3	£	72,150	19	3

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

					£	s.	d
				By Trading Account	19,162	10	8

The Manufacturing Account is sometimes constructed in a slightly different form, and in *one* account, as under—

MANUFACTURING ACCOUNT

Dr		£	s	d.		£	s.	d.
To Stocks at Start—					By Amount Transferred to Trading Account (Cost of Goods Manufactured)	48 125	16	1
Raw Materials		5,742	10	8				
Partly Manufactured Goods		7,859	11	2				
,, Purchases of Raw Materials		20,667	14	11				
		34,269	16	9				
Less Stocks at Finish								
Raw Materials	£4,987 12 6							
Partly Manufactured Goods	9,856 11 2	14,844	3	8				
		19,425	13	1				
,, Carriage and Freight on Raw Materials		387	16	3				
,, Manufacturing Wages		20,596	8	10				
Prime Cost of Production		40,409	18	2				
Add Factory Oncost	£8,084 17 5							
Plus Proportion on Partly Manufactured Goods b/f	1,268 12 9							
	9,353 10 2							
Less Proportion on Partly Manufactured Goods c/f	1,637 12 3	7,715	17	11				
Factory Cost of Production	£	48,125	16	1	£	48,125	16	1

MANUFACTURING ACCOUNT

Dr.		£	s.	d.	*Cr.*	£	s.	d
To Stocks at Start—					By Amount Transferred to Trading Account (Trade Price of Goods Manufactured)	54,137	19	5
Raw Materials		5,742	10	8				
Partly Manufactured Goods		7,859	11	2				
,, Purchases of Raw Materials		20,667	14	11				
		34,269	16	9				
Less Stocks at Finish—								
Raw Materials	£4,987 12 6							
Partly Manufactured Goods	9,856 11 2	14,844	3	8				
		19,425	13	1				
,, Carriage and Freight on Raw Materials		387	16	3				
,, Manufacturing Wages		20,596	8	10				
Prime Cost of Production		40,409	18	2				
Add Factory Oncost	£8,084 17 5							
Plus Proportion on Partly Manufactured Goods b/f	1,268 12 9							
	9,353 10 2							
Less Proportion on Partly Manufactured Goods c/f	1,637 12 3	7,715	17	11				
Factory Cost of Production		48,125	16	1				
Balance (Profit on Production)		6,012	3	4				
	£	54,137	19	5	£	54,137	19	5

Dr. TRADING ACCOUNT Cr.

	£	s.	d.			£	s.	d.
To Stock of Manufactured Goods at Start	5,509	11	2	By Sales . . . £69,562 14 3				
.. Manufacturing Account (Trade Price of Goods Produced)	54,137	19	5	*Less* Returns . . 1,857 4 6		67,705	9	9
	59,647	10	7					
Less Stock of Manufactured Goods at Finish	5,236	19	8					
Prime Cost of Sales	54,410	10	11					
Balance (Gross Profit on Sales) . .	13,294	18	10					
£	67,705	9	9		£	67,705	9	9

Dr. PROFIT AND LOSS ACCOUNT Cr.

					£	s.	d.
				By Manufacturing Account	6,012	3	4
				,, Trading Account	13,294	18	10
				£	19,307	2	2

Profit or Loss on Production

In theory, the Manufacturing Department exists solely for the benefit of the Selling Department, and the output of the former is, therefore, charged to the latter at actual cost, though such cost may be *higher* or *lower* than current trade prices.

In such cases the Manufacturing Account will show neither profit or loss. In some cases, however, the Manufacturing Account is credited with the value of its output *at current trade prices*, and the balance of the Account then represents profit or loss on production. By this means it can be seen whether it is more profitable to manufacture than to buy goods already made.

The example shown at the foot of the previous page will illustrate the matter more clearly.

Manufacturing Account Prepared from Raw Material Accounts

In some businesses, separate accounts are kept for each of the raw materials used in production, and the information afforded by these is used for the purpose of constructing the Manufacturing Account.

It will be realized, of course, that the titles and also the number of the accounts will vary according to the different trades.

The following particulars will enable us to give an example by way of illustration—

	£	s	d.
Stocks at 1st January, 19..—			
Pig Iron	26,358	10	2
Limestone	297	12	6
Coal and Coke	1,542	11	7
Iron Ore	1,456	8	5
Purchases during the Year—			
Coal and Coke	27,385	11	9
Limestone	3,739	10	6
Iron Ore	15,618	7	10
Sales of Pig Iron during the Year .	101,856	2	8
Expenses during the Year—			
Furnace Wages	8,759	2	4
Carriage Inwards	2,085	11	6
Repairs and Renewals of Furnaces .	2,679	4	9
Stocks at 31st December, 19..—			
Pig Iron	36,852	15	6
Limestone	386	2	10
Coal and Coke	1,679	3	8
Iron Ore	1,688	10	6

The Ledger Accounts for the various raw materials will appear as shown on the next page.

Dr. IRON ORE *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Jan. 1	To Balance	1,456	8	5	Dec 31	By Stock c/d . . .	1,688	10	6
Jan.-Dec.	" Purchases . . .	15,618	7	10	31	" Balance (Amount Used) Transferred to Manufacturing Account . .	15,386	5	9
	£	17,074	16	3		£	17,074	16	3
Jan. 1	To Balance b/d . . .	1,688	10	6					

Dr. LIMESTONE *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Jan. 1	To Balance	297	12	6	Dec 31	By Stock c/d . . .	386	2	10
Jan.-Dec	" Purchases . . .	3,739	10	6	31	" Balance (Amount Used) Transferred to Manufacturing Account .	3,651	–	2
		£4,037	3	–			£4,037	3	–
Jan. 1	To Balance b/d . . .	386	2	10					

Dr. COAL AND COKE *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Jan. 1	To Balance	1,542	11	7	Dec. 31	By Stock c/d . . .	1,679	3	8
Jan.-Dec.	" Purchases . . .	27,385	11	9	31	" Balance (Amount Used) Transferred to Manufacturing Account .	27,248	19	8
	£	28,928	3	4		£	28,928	3	4
Jan. 1	To Balance b/d . . .	1,679	3	8					

The Manufacturing and Trading Accounts will appear as under—

Dr. MANUFACTURING ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Dec. 31	To Amounts Consumed—				Dec 31	By Transfer to Trading Account (Cost of Pig Iron Produced) . . .	59,810	4	2
	Iron Ore . . .	15,386	5	9					
	Limestone . . .	3,651	–	2					
	Coal and Coke . .	27,248	19	8					
31	" Furnace Wages . .	8,759	2	4					
31	" Carriage Inwards . .	2,085	11	6					
31	" Repairs and Renewals of Furnaces . . .	2,679	4	9					
	£	59,810	4	2		£	59,810	4	2

Dr. TRADING ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19.. Jan. 1	To Stock of Pig Iron .	26,358	10	2	19.. Dec. 31	By Sales of Pig Iron .	101,856	2	8
Dec. 31	,, Amount Transferred from Manufacturing Account (Cost of Pig Iron Produced) . . .	59,810	4	2	31	,, Stock of Pig Iron .	36,852	15	6
31	,, Balance (Gross Profit) .	52,540	3	10					
		£138,708	18	2			£138,708	18	2

Sometimes the Manufacturing Account is drawn up in tabular form similar to the following—

MANUFACTURING ACCOUNT

Dr. For the Year Ending 31st December, 19.. *Cr.*

	Iron Ore			Limestone			Coal and Coke			Total				Total		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d.
To Production—													By Transfer to Trading A/c (Cost of Pig Iron Produced)	59,810	4	2
Stocks, 1st Jan .	1,456	8	5	297	12	6	1,542	11	7	3,296	12	6				
Add Purchases .	15,618	7	10	3,739	10	6	27,385	11	9	46,743	10	1				
	17,074	16	3	4,037	3	–	28,928	3	4	50,040	2	7				
Less Stocks, 31st Dec. . .	1,688	10	6	386	2	10	1,679	3	8	3,753	17	–				
Materials Consumed .	15,386	5	9	3,651	–	2	27,248	19	8	46,286	5	7				
,, Carriage Inwards .										2,085	11	6				
,, Furnace Wages .										8,759	2	4				
,, Repairs and Renewals of Furnaces . .										2,679	4	9				
									£	59,810	4	2	£	59,810	4	2

The above Account is also known by the names of "Working Account," "Furnaces Account," and "Pig Iron Production Account."

Sub-Manufacturing Accounts

As previously stated, the term "Manufacturing Account" is only a general designation, and in many businesses there are sub-manufacturing accounts, which are called by the names specific names of their particular process or stage of manufacture.

The following examples are taken from the cotton trade, but every trade would have, not only its typical headings, but also terms peculiar to itself.

NORTHERN COTTON MILLS, LTD.

SPINNING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

	£	s.	d.		£	s	d
To Cotton	85,916	11	8	By Sale of—			
,, Brokerage, Charges, etc	306	11	4	Yarns	5,643	12	8
,, Freight and Carriage	1,215	8	6	Waste	2,639	14	6
,, Wages and Salaries	18,046	15	9	Sundries	372	8	5
,, Coals	2,162	11	3	,, Balance—Transferred to Trading Account	105,742	2	11
,, Oil, Tallow, etc.	318	10	4				
,, Gas, Electric Light, and Water	273	19	6				
,, Cards, Ropes, Roller Leather, and Cloth	784	12	9				
,, Skips, Bobbins, and Skewers	195	18	2				
,, Brushes, Starch, and Banding	287	16	4				
,, Strapping and Laces	149	19	6				
,, Packing Paper and Twine	319	12	2				
,, Rates, Taxes, and Insurance	452	15	7				
,, Mill Charges and Sundry Stores	208	16	3				
,, Horse and Stable Expenses	291	13	8				
,, Repairs to Buildings, Engines, Boiler Gearing, etc.	1,276	6	10				
,, Depreciation of Plant	2,189	18	11				
	£114,397	18	6		£114,397	18	6

WEAVING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

	£	s.	d.		£	s.	d.
To Purchase of Yarns	4,128	13	10	By Sale of Waste	109	6	5
,, Freight and Carriage	602	10	6	,, Sale of Sundries	87	2	10
,, Wages and Salaries	26,950	17	2	,, Balance—Transfer to Trading A/c	38,759	17	4
,, Coals	1,079	12	8				
,, Tallow, Oils, Waste	165	10	2				
,, Gas, Electric Light, and Water	259	15	7				
,, Shuttles, Pickers, Picking Bands, etc.	486	11	5				
,, Reeds, Combs, and Healds	315	19	6				
,, Brushes and Sundries	95	15	8				
,, Strapping and Laces	89	18	2				
,, Skips, Bobbins, and Skewers	117	14	10				
,, Flour and Sizing Materials	1,607	15	11				
,, Rates, Taxes, and Insurance	272	18	6				
,, Mill Charges and Sundry Stores	206	15	9				
,, Horse and Stable Expenses	78	14	8				
,, Repairs to Buildings, Engines, Boiler Gearing, etc.	478	10	6				
,, Depreciation of Plant and Machinery	2,018	11	9				
	£38,956	6	7		£38,956	6	7

TRADING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

	£	s.	d.		£	s.	d.
To Stocks of Cloth, 1st Jan—				By Sales of Cloth—			
At Mills	40,812	11	8	Grey	61,518	10	8
At Warehouse	69,407	12	10	White	142,776	15	2
At Bleachers and Dyers	7,921	16	8	Dyed	11,185	12	4
	118,142	1	2		215,480	18	2
,, Goods Purchased	8,402	6	9	,, Sales of Bought Goods	9,548	6	5
,, Bleaching, Dyeing, and Printing	27,816	9	5	,, Stocks of Cloth, 31st Dec—			
,, Carriage	337	10	6	At Mills	40,991	4	9
,, Packing	259	4	8	At Warehouse	71,518	19	6
,, Spinning Account, Amount Transferred	105,742	2	11	At Bleachers and Dyers	11,419	10	8
,, Weaving Account, Amount Transferred	38,759	17	4				
,, Balance (Gross Profit)	49,499	6	9				
	£348,958	19	6		£348,958	19	6

Discounts on Purchases

In many manufacturing businesses the Discounts on Purchases are credited to the Manufacturing Account, or, if there are several, then they are apportioned between them.

Such Discounts are, in effect, a reduction of the Purchases to the absolute net figure of cost.

In some Manufacturing Accounts they appear as a deduction from the Purchases themselves, and in other accounts as a separate credit.

Combined Manufacturing and Trading Accounts

In some businesses the manufacturing and trading operations are not shown separately, but combined in one account, called a "Manufacturing and Trading Account," or merely "Manufacturing Account." In such cases, it is usual to charge Depreciation of Plant, Machinery, and Tools to this Account instead of to the Profit and Loss Account. The balance of the Account is called the gross profit, and is carried to the credit of the Profit and Loss Account. The following is an example—

MATSEL BRICK WORKS, LTD.

MANUFACTURING AND TRADING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

	£	s	d.	£	s.	d.		£	s.	d.
To Coal Consumed				1,716	11	8	By Stock of Bricks, 31st Dec	796	11	6
,, Stores Consumed				219	12	11	,, Brick Sales for the Year	10,718	11	8
,, Rations				708	14	6				
,, Wages				2,916	15	2		11,515	3	2
,, Stable Expenses				16	3	8	*Less* Stock of Bricks, 31st Dec.	819	6	5
,, Rent				210	—	—				
,, Carriage Inwards				546	12	4		10,695	16	9
,, Repairs and Renewals				329	18	9				
,, Medical Fees				12	17	6				
,, Depreciation—										
Plant	89	10	4							
Machinery	182	14	8							
Kilns	179	19	10							
Pumping Plant	15	8	8							
Railway Siding	17	11	8							
				485	5	2				
,, Balance (Gross Profit)				3,533	5	1				
				£10,695	16	9		£10,695	16	9

Manufacturing and Profit and Loss Accounts

Sometimes the word "Trading" is omitted from the heading of final accounts, which are then styled "Manufacturing and Profit and Loss Accounts." The first part of the Account partakes of the nature of both manufacturing and trading operations.

This type of Manufacturing Account differs from the ordinary Trading Account in some important particulars. In addition to the usual Trading Account items it also contains—

(1) Depreciation of Plant and Machinery and Tools; (2) Repairs to Machinery and Plant, (3) Factory Expenses such as Rent, Rates, and Taxes, also Insurance, Lighting and Heating. These Repairs and Depreciation are losses directly incurred by reason of the wear and tear of the plant and machinery and tools in producing or manufacturing. Again, it is quite usual to find Discounts on Purchases included with the other items; while factory expenses are undoubtedly an item in the cost of manufacture.

It differs from a Cost Account in that it does not contain *all* the indirect expenses, and because it includes the *trading* details. It differs from a Trading Account because it includes some direct and some indirect *expenses of production.*

By way of illustration, we will assume that the following are the particulars of the Epsilon Manufacturing Company for the year ended 31st Dec., 19..—

	£	s	d
Purchases, *less* Returns	38,641	11	8
Sales, *less* Returns	85,784	7	6
Stock, 1st January	3,937	8	4
Stock, 31st December	4,126	18	5
Carriage Inwards	1,648	7	2
Manufacturing Wages	18,907	16	3
Fuel and Power	2,816	15	9
Machinery Repairs	627	9	5
Loose Tools	2,465	18	5
Machinery and Plant	15,163	7	10
Factory Rates, Taxes, and Insurance	1,023	10	3
Factory Lighting and Heating	1,784	4	11
Work-in-progress, 1st January	1,103	5	6
Work-in-progress, 31st December	1,318	18	5
Discounts on Purchases	1,045	13	7

Depreciation on Machinery and Plant, 5 per cent.
Depreciation on Loose Tools, 10 per cent.

We will also assume that we are required to prepare the first part of the "Manufacturing and Profit and Loss Account" for the year, and to show the gross profit. This will be as under—

MANUFACTURING AND PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDING 31ST DECEMBER, 19..

Dr.	£	s.	d.	*Cr.*	£	s.	d.
To Stock, 1st Jan.	3,937	8	4	By Sales (Net)	85,784	7	6
,, Work in Progress, 1st Jan.	1,103	5	6	,, Discounts on Purchases	1,045	13	7
,, Purchases (Net)	38,641	11	8	,, Stock, 31st Dec.	4,126	18	5
,, Carriage Inwards	1,648	7	2	,, Work in Progress, 31st Dec.	1,318	18	5
,, Manufacturing Wages	18,907	16	3				
,, Fuel and Power	2,816	15	9				
,, Factory—							
Rates, Taxes, and Insurance	1,023	10	3				
Light and Heat	1,784	4	11				
,, Machinery Repairs	627	9	5				
,, Depreciation—							
Plant and Machinery	758	3	5				
Loose Tools	246	11	10				
,, Balance (Gross Profit)	20,780	13	5				
	£92,275	17	11		£92,275	17	11

Percentage Trading and Profit and Loss Account

In many businesses it is very desirable to know the ratio which the cost of production and the various expenses bear to the turnover. Where cost is not definitely known, remunerative selling prices cannot be fixed with any degree of certainty. If a trader has past records of the exact percentage that each item of expense bears to the turnover, he is in a much better position for tendering for would-be customers' requirements. Owing to the severe competition of the present day, estimates must

be as low as possible; and although prices have necessarily to be cut very fine, yet, at the same time, they must leave the manufacturer or trader a real margin of profit.

In order to compare items that have no apparent points of resemblance it will be necessary to reduce them to some common basis, in the same way that, in arithmetic, very unlike fractions are brought to a common denominator before a real comparison can be made. Suppose, for instance, we are asked to compare the following fractions—

$$\frac{4}{385} \qquad \frac{2}{231} \qquad \frac{2}{105} \qquad \frac{1}{165}$$

It is quite impossible to say which is the largest or which is the smallest, or to form any idea of their relative magnitude. But reduce them to a common denominator, thus—

$$\frac{12}{1155} \qquad \frac{10}{1155} \qquad \frac{22}{1155} \qquad \frac{7}{1155}$$

and comparison is at once simplified; their relative proportions are obvious.

Again, suppose we are asked to compare the first two years' trading results of a trader, which are as under—

1st Year	*2nd Year*
Turnover, £50,000.	Turnover, £40,000.
Gross Profit, £10,000.	Gross Profit, £9,000.

From a prima facie inspection of the figures, we might be inclined to say that the first year was the better year, because (1) the turnover was larger, and (2) because the gross profit was larger. And the argument seems plausible. But let us reduce the profits to a common basis, i.e. find what proportion each bears to its turnover. This gives us the following results—

1st Year	*2nd Year*
Percentage of Gross Profit on Turnover	Percentage of Gross Profit on Turnover
$= \frac{10000 \times 100}{50000}$	$= \frac{9000 \times 100}{40000}$
$= 20\%$	$= 22\frac{1}{2}\%$

It is quite obvious, now, that our prima facie conclusion that the first year was the better year is entirely false. Although in the second year there was a *smaller* turnover and a *smaller* gross profit, yet the *rate of gross profit* has actually *increased* by $2\frac{1}{2}$ per cent.

In order, therefore, that the items in a Trading and Profit and Loss Account may be shown in relation to the common basis, the turnover, it will be necessary to slightly re-arrange the Trading Account.

Prime Cost of Goods Sold

When the Trading Account is prepared in the usual form, it does not show the cost value of the goods actually sold. If the Stocks at start and finish of the trading period were identically the same amounts, they could be ignored. But when the Stocks differ by a considerable amount, this difference must be taken into consideration. Now, the Stocks can quite properly be merged with the Purchases; for the Stock at start is only last year's Purchases unsold, and the Stock at finish is merely this year's Purchases unsold. In the Percentage Trading and Profit and Loss Account, therefore, the Stock at commencement is added to the Purchases, and the Stock at close is deducted from the combined total, thus showing the actual cost of the goods sold.

Turnover and Work-in-Progress

The value of the Turnover is usually arrived at by deducting the Sales Returns from the Gross Sales. In some businesses, however, Work-in-Progress appears in the Trading Account. In order to apply the percentage method, the Work-in-Progress at the close of the trading period must be *added to the Sales*, and the Work-in-Progress at the commencement of the trading period must be *deducted from the Sales*, and the balance will then be the correct value of the Turnover for the period.

Output or Production

The value of the Output or Production in a manufacturing or productive business is found as shown below—

	£	s.	d
Sales of Finished Goods (say)	29,684	13	8
Add Stock at Close	6,309	8	10
	35,994	2	6
Deduct Stock at Start	5,732	13	7
Value of Output	£30,261	8	11

Worked Example

We will suppose that the following are the particulars of a firm's trading, from which it

is desired to prepare a Percentage Trading and Profit and Loss Account—

	£	s.	d.
Stock, 1st January	7,085	12	6
Purchases, *less* Returns	11,237	6	8
Sales, *less* Returns	22,543	17	9
Salaries	485	14	7
Commission	328	10	5
Wages	3,243	4	8
Advertising	314	12	9
Discount, *Dr.*	384	16	2
Carriage Inwards	835	11	4
Rent, Rates, and Taxes	394	16	8
Carriage Outwards	329	11	5
Trade Expenses	416	8	3
Bad Debts	327	15	4
Depreciation	384	5	11
Interest on Capital	246	9	10
Stock, 31st December	7,623	11	7

the items of expenditure bear to the turnover. A comparison of percentages will afford valuable information, and enable practical conclusions to be drawn.

It can be seen at a glance whether there is any or much fluctuation in the Prime Cost of Production in a manufacturing business, or in the Prime Cost of Sales in a non-manufacturing business. Increases in the Cost of Production, i.e. Manufacturing Wages, Carriage Inwards, Power, etc., should be carefully explored, and not left until satisfactorily accounted for.

It can also be seen whether the standard rate of Gross Profit has been maintained, or whether it has increased or decreased. Decreases in the percentage of Gross Profit should be carefully examined, and continued decreases should be a distinct warning.

TRADING AND PROFIT AND LOSS ACCOUNT

Dr FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

	Per Cent on Sales	£	s.	d.		Per Cent on Sales	£	s.	d
To Stock, 1st Jan		7,085	12	6	By Sales (Net)	100·00	22,543	17	9
,, Purchases (Net)		11,237	6	8					
		18,322	19	2					
Less Stock, 31st Dec.		7,623	11	7					
Prime Cost of Goods Sold	47·45	10,699	7	7					
,, Carriage In	3·71	835	11	4					
,, Wages	14·39	3,243	4	8					
,, Balance (Gross Profit)	34·45	7,765	14	2					
	100·00	22,543	17	9		100·00	22,543	17	9
To Salaries	2·16	485	14	7	By Balance (Gross Profit) b/d.	34·45	7,765	14	2
,, Commission	1·46	328	10	5					
,, Advertising	1·40	314	12	9					
,, Discount	1·71	384	16	2					
,, Rent, Rates, and Taxes	1·75	394	16	8					
,, Carriage Out	1·46	329	11	5					
,, Trade Expenses	1·84	416	8	3					
,, Bad Debts	1·45	327	15	4					
,, Depreciation	1·70	384	5	11					
,, Interest on Capital	1·10	246	9	10					
,, Balance (Net Profit)	18·42	4,152	12	10					
	34·45	£7,765	14	2		34·45	£7,765	14	2

Comparative Trading and Profit and Loss Accounts

Comparison of the figures of the current year's trading with the figures of the previous year is very useful to most businesses. The mere increase or decrease of money value is not so important as the variations in the ratio which

As regards the Profit and Loss Account, some items such as Rent, Rates, Taxes, and Insurance will not vary directly with the turnover. Most of the expenses, however, such as Carriage Outwards, Discounts Allowed, Commission,

Packages, Bad Debts, and General Charges, will be proportionate to the volume of trade done. Some expenses may show an increase in amount, but a decrease in percentage. Other expenses may show an increase both in amount and in percentage.

Fixed Charges such as Rent, Rates, and Taxes, may show a decrease in percentage owing to the mere fact of being divided by a larger turnover.

Depreciation may also show a decrease in

The principle of comparison could, of course, be extended to the Balance Sheet, and it sometimes is. Here, however, percentages would hardly be useful; and the variations that existed could only be shown as increases or decreases in the sterling value of the assets and liabilities. Such differences could be made more conspicuous by the use of different coloured inks for increases and decreases respectively.

The following is an example of a Comparative Trading and Profit and Loss Account—

COMPARATIVE TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

	Per Cent on Sales						Per Cent on Sales				
	Last Year	This Year	£	s.	d.		Last Year	This Year	£	s.	d.
To Stock, 1st Jan.			7,085	12	6	By Sales (Net)	100·00	100·00	22,543	17	9
,, Purchases (Net)			11,237	6	8						
			18,322	19	2						
Less Stock, 31st Dec.			7,623	11	7						
Prime Cost of Goods Sold	49·32	47·45	10,699	7	7						
,, Carriage Inwards	3·77	3·71	835	11	4						
,, Wages	14·65	14·39	3,243	4	8						
,, Balance (Gross Profit)	32·26	34·45	7,765	14	2						
	100·00	100·00	22,543	17	9		100·00	100·00	22,543	17	9
To Salaries	2·30	2·16	485	14	7	By Balance (Gross Profit) b/d	32·26	34·45	7,765	14	2
,, Commission	1·46	1·46	328	10	5						
,, Advertising	1·43	1·40	314	12	9						
,, Discount	1·72	1·71	384	16	2						
,, Rent, Rates, and Taxes	1·68	1·75	394	16	8						
,, Carriage Outwards	1·46	1·46	329	11	5						
,, Trade Expenses	1·85	1·84	416	8	3						
,, Bad Debts	1·47	1·45	327	15	4						
,, Depreciation	1·72	1·70	384	5	11						
,, Interest on Capital	1·07	1·10	246	9	10						
,, Balance (Net Profit)	16·10	18·42	4,152	12	10						
	32·26	34·45	£7,765	14	2		32·26	34·45	£7,765	14	2

percentage owing to a decreased charge, especially under the Reducing Balance method, as well as owing to a larger turnover. Variations in amount and in percentage will indicate the necessity for careful investigation.

Columnar statements of similar percentages, percentages only, covering several trading periods, are sometimes drawn up, and add greatly to the usefulness of the principle of comparative results.

Such an account as the above would not form part of the ordinary double-entry book-keeping, but would be specially prepared for the consideration of the owner or proprietors.

Working Accounts

In those businesses which are not engaged in the manufacture of goods, that is, in changing raw materials into finished goods or products, the Manufacturing Account and its subdivisions

are not used, but, instead, the items necessary to find the profit are grouped together in a Working Account.

A Working Account is an account constructed in order to arrive at the gross or working profit made by some industrial enterprise, either productive or non-productive. In productive undertakings, such as mines, quarries, plantations, and newspapers, a Working Account is very similar to the Cost of Production Account of a manufacturer. In non-productive undertakings, such as steamships, canals, and hotels, a Working Account corresponds very closely to a Trading Account, or Revenue Account, or an Income and Expenditure Account.

The term "Working Account" is merely a general title, specific names being in use in certain cases, e.g. Production Account in the case of a newspaper; Crop Account in the case of tea, coffee, cocoa, cotton, and rubber plantations. It is quite impossible to be exhaustive, but the following eight examples are typical specimens of such Accounts, and should, therefore, be carefully studied.

EXAMPLE 1

EXCELSIOR PICTURES, LTD.

THEATRE WORKING ACCOUNT

Dr.	£	s.	d.	*Cr.*	£	s.	d.
To Film Hire	22,646	10	6	By Theatre Takings	65,678	12	8
,, Gas and Electricity	4,158	4	8	,, Profit on Refreshments	375	15	6
,, Rent, Rates, and Taxes	3,578	12	4	,, Sundry Receipts	12	10	4
,, Insurance	2,126	10	6				
,, Cost of Entertainments	265	16	3				
,, Salaries and Wages	12,456	12	6				
,, Advertising and Bill Posting	3,617	4	2				
,, General Expenses	2,758	11	5				
,, Repairs and Renewals of Theatres	1,928	6	3				
,, Repairs and Renewals of Plant	1,756	14	8				
,, Balance (Gross Profit)	10,773	15	3				
£	66,066	18	6	£	66,066	18	6

EXAMPLE 2

THE "FLAXFIELD" HOTEL, LTD.

WORKING ACCOUNT

Dr.	£	s.	d.	*Cr.*	£	s.	d.
To Consumption of—				By Amounts Charged to Customers—			
Grocery and Provisions	4,759	12	8	Grocery and Provisions	6,859	15	2
Wines, Spirits, and Liqueurs	4,286	4	3	Wines, Spirits, and Liqueurs	6,923	11	8
Ale, Beer, and Minerals	2,145	16	7	Ale, Beer, and Minerals	3,385	2	9
Tobacco, Cigars, and Cigarettes	1,028	11	9	Tobacco, Cigars, and Cigarettes	1,731	16	4
Sundry Stores	285	12	4	Apartments, Attendance, and Baths	12,346	12	7
,, Wages and Salaries	5,346	2	10	,, Bar Receipts	1,219	3	5
,, Licences and Insurance	1,147	10	6	,, Billiard Room Receipts	526	14	2
,, Newspapers, Magazines, Printing, and Stationery	309	12	5	,, Stable and Garage Receipts	319	15	8
,, Coals, Gas, and Lighting	647	13	1				
,, Repairs and Renewals of Buildings	258	6	7				
,, Laundry	345	9	6				
,, Stable and Garage Expenses	237	18	8				
,, Rent, Rates, and Taxes	1,298	4	10				
,, Repairs, Renewals, and Depreciation—							
Furniture and Fittings	334	11	6				
Cutlery and Plate	192	16	4				
House, Bed, and Table Linen	135	12	3				
China and Glass	156	19	7				
,, Balance (Gross Profit)	10,395	16	1				
£	33,312	11	9	£	33,312	11	9

EXAMPLE 3

VANCHUK TOBACCO PLANTATIONS, LTD.

Dr. PLANTATION WORKING ACCOUNT *Cr.*

	£	s	d.		£	s.	d.
To Plantation Wages—				By Proceeds of Sale of Tobacco . .	63,748	9	10
Planting	12,297	6	8				
Manufacturing	4,508	12	7				
,, Plantation Salaries—							
European Staff	7,165	9	3				
Native Overseers	2,097	11	6				
Native Watchmen	928	16	4				
,, Coolie Expenses (Brokerage, Passage Money, etc.) . . .	3,116	18	7				
,, Hospital Working Expenses . .	1,129	9	6				
,, Transport Expenses	1,108	15	8				
,, General Plantation Expenses . .	1,216	3	10				
,, Stable Expenses	619	12	7				
,, Loss (by Death) of Advances to Coolies	528	4	8				
,, Wastage of Live Stock (Ponies, Bullocks, etc)	507	3	10				
,, Commission on Sale of Tobacco . .	3,246	12	7				
,, Repairs, Renewals, and Depreciation—							
Railway	149	10	8				
Steam Launch, Lighters, etc. . .	387	14	9				
Loose Tools	339	13	6				
Pier, Wharf, etc.	276	8	11				
Ways, Roads, etc.	1,368	4	3				
Buildings, etc.	3,715	17	5				
,, Balance (Gross Profit) . . .	19,040	2	9				
£	63,748	9	10	£	63,748	9	10

EXAMPLE 4

MERKFORD CANAL COMPANY

Dr. WORKING ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Maintenance, Dredging, and Ice-breaking	3,598	2	10	By Toll Traffic Receipts	7,604	16	5
,, Rents Payable	2,187	16	5	,, Freight Traffic Receipts . . .	15,078	3	6
,, Rates, Taxes, and Insurance . .	1,398	4	6		22,682	19	11
,, General Charges	1,407	11	8	*Less* Traffic Expenses . . .	12,365	7	5
,, Depreciation of Boats, Horses, and Carrying Plant	926	12	3	Net Traffic Receipts . .	10,317	12	6
,, Balance (Gross Profit) . . .	4,840	1	10	,, Rents Receivable	3,948	5	4
				,, Sundry Receipts	92	11	8
£	14,358	9	6	£	14,358	9	6

EXAMPLE 5

HIGH SEAS NAVIGATION COMPANY, LTD.

Dr. WORKING ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Navigation Expenses—				By Passage Money . . .	1,125,687	11	8
Coal, Oil, Water . . .	668,504	10	8	,, Freight, Charters, and Miscellaneous Services . . .	1,507,346	12	6
Dues, Towage, Pilotage, etc .	173,825	9	7	,, Government Contract Services: India, China, Australia . .	290,000	–	–
Pay of Officers and Crew .	321,746	11	3	,, Compensation from Brazilian Government for Seizure of s.s. *Rover*	10,650	–	–
,, Provisioning of Passengers, Officers and Crew	314,509	16	2				
,, Suez Canal Dues . .	331,235	4	10				
,, Sundry Expenses—							
Damages, Claims, and Law Charges	13,250	10	6				
Expenses of Steamers Laid Up .	9,478	6	4				
Quarantine Charges . .	1,785	9	3				
,, Ships' Repairs, Stores, and General Maintenance Charges . .	169,416	11	5				
,, Insurance Charges and General Average Claims . . .	21,594	3	7				
,, Depreciation of Fleet, etc. . .	334,675	15	6				
,, Balance (Gross Profit) . .	573,661	15	1				
	£2,933,684	4	2		£2,933,684	4	2

EXAMPLE 6

THE RELFORD STEAM TRAWLER COMPANY

Dr. WORKING ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Coal and Oil	163	18	6	By Sales of Fish	1,107	12	3
,, Repairs and Renewals	92	12	7	,, Sale of Old Rope, etc. . . .	1	9	6
,, Landing Dues	14	6	5				
,, Harbour Dues	12	17	8				
,, Wages—							
General	139	15	9				
Fishermen	172	11	6				
Casual Labour	24	9	8				
,, Commission	21	10	7				
,, Ropes, Stores, etc.	55	7	9				
,, Net Braiding, Mending, and Tarring .	17	8	5				
,, Carpentering	15	6	3				
,, Painting	13	11	7				
,, Salvage Claims	24	9	10				
,, Balance (Gross Profit) . . .	340	15	3				
	£1,109	1	9		£1,109	1	9

EXAMPLE 7

THE "DAILY INFORMER" NEWSPAPER COMPANY, LTD.

Dr. PRODUCTION ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Paper Used	8,592	3	6	By Sales—Cash	725	1	8
,, Ink Used	498	11	2	,, Sales to Agents, *less* Discounts and Returns	15,186	16	2
,, Compositors' and Machining Wages	4,207	6	10				
,, Cost of Literary Contributions	1,126	15	7	,, Sales to Subscribers, *less* Postages and Wrappers	2,374	10	6
,, Reporters' and Office Salaries	4,786	10	9				
,, Editors' Salaries	1,320	–	–				
,, Newsagency Telegrams	276	9	8		18,286	8	4
,, Petty Expenses	62	12	5	,, Advertisements	19,147	15	3
,, Gas, Electricity, and Fuel	514	3	7	,, Sales of Waste Paper	218	6	2
,, Repairs and Renewals	336	5	9	,, Jobbing Printing Sales	94	7	6
,, Depreciation of Machinery, Plant, and Stereos	228	6	8				
,, Depreciation of Linotype Installation	82	10	4				
,, Rates, Taxes, and Insurance of Works	173	11	6				
,, Balance (Gross Profit)	15,541	9	6				
£	37,746	17	3	£	37,746	17	3

EXAMPLE 8

THE SPICKLE GOLD MINING COMPANY, LTD.

Dr. MINE WORKING ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Ore Extraction: Expenses of Mining	38,759	16	8	By Bullion Account	262,018	3	10
,, Reduction of Ore—				,, Tailings Account	2,184	11	7
Milling	16,584	11	9				
Concentrating	11,823	9	6				
Cyaniding	47,035	4	3				
Tramming	5,082	12	5				
,, Concession Rents	810	–	–				
,, Royalties	3,596	10	6				
,, Prospecting Expenses	1,208	4	9				
,, Claim Expenses	1,786	15	2				
,, Wages at Mine	4,037	2	8				
,, General Charges at Mine	2,569	18	7				
,, Mint and Bank Charges on Bullion	1,485	6	9				
,, Depreciation of Works, Machinery, and Plant	5,872	8	4				
,, Balance (Gross Profit)	123,550	14	1				
	£264,202	15	5		£264,202	15	5

CHAPTER XXVII

DEPARTMENTAL ACCOUNTS AND TABULAR BOOK-KEEPING

WHEN a business consists of a few distinct and clearly defined departments, it is not only desirable to keep the accounts separate for each, but it may be the easiest and most convenient way in which the books can be kept.

But where there are many departments, and a very large number of the orders received are for parcels of mixed goods from two, three, or more of these departments, divisions may be exceedingly difficult to make, and may constitute a strain upon the office staff which is unjustified and confusing.

A retailer with several branch shops should be able to ascertain the profit or loss upon each separately. Equally, the proprietors of a huge departmental store should be able to break up its great turnover into sections, so as to keep a check upon the management methods, and upon the success or failure of the different departments.

Again, a manufacturer who supplies only wholesale buyers at a distance, but who is himself a wholesale dealer in the local area, should be able to draw a sharp line between his manufacturing business and his wholesale trade.

But where turnover is relatively small, and the different activities of a firm are interlocked with each other, the wisdom of breaking up the accounts into many parts is questionable.

To take a comparative case—

A retailer may reason: " In this small shop, with ten assistants, I sell nearly as many varieties of articles as they sell in the department store across the road, where there are 300 assistants. If it is necessary for them to know what they are doing in each department it is equally necessary for me to know, consequently where they divide accounts I must do the same."

The argument is fallacious, because one man can directly control ten assistants and buy for all of them, but one man cannot manage and buy for 300 in the same way. Sectional account keeping is generally associated with deputed authority: it is the check upon the sub-manager who is an important person in the large business, but who may not exist in the small one.

Special accounts might be desirable where a series of three or four shops and showrooms form one complete department out of several, but would be ridiculous applied to half a counter in a single shop.

Again, a firm supplying an advertised brand of goods throughout the country, and doing a local retail business in its main centre, might wish to divide the accounts of the two activities right up through to the Profit and Loss Account.

Methods of Division

There are different ways in which accounts may be divided—

1. Books or accounts kept separately right through the whole system so that a firm may choose to regard itself as two or more separate portions.

2. Division by keeping departmental accounts and

3. By abstracting analytical figures on separate sheets or in separate books of record without interfering with central system of book-keeping.

The first of these speaks for itself. Accounts can be merged into one at any point; as for example, there might be separate Trading Accounts but a joint Profit and Loss Account.

This chapter deals clearly with the first and second methods, and illustrative instances are elaborated in the following pages.

The third method deserves attention, as it may be suitable for adoption in certain business offices.

Independent Analysis

The method is simple. All accounts are kept in accordance with the simplest and most approved rules of book-keeping, and the orthodox books of the firm such as Cash Books, Day Books, Purchases Books, Returns Books and Ledgers are kept as if there were no departments and no special information desired.

At the same time a separate work of analysis goes on, and figures which are required for different purposes are abstracted.

These are taken out on sheets or in books that are outside the circle of the official accounts, but the totals, of course, can be introduced if it is desirable.

This method would not be suitable where

there is a clear case for division into departments, as in the cases that follow, but it is admirably adapted to those cases where there is reason to change the nature of the analysis from time to time.

Thus, a wholesale house doing a general drapery trade may have four departments: (1) Manchester goods, (2) woollens, (3) lace and general.

Suddenly a new fabric, artificial silk, leaps into prominence, and becomes too important to relegate to "general goods."

Lace, however, happens to die down, and is relegated to "General Goods," so that columns may be reserved for the new fabric.

So far so good, but the directors are interested in lace, and hope to see it revive; at all events, they wish to know about it.

They can do so by making, whenever required, a separate independent analysis of transactions in lace.

The Increase of Analysis in Commerce

But this brings us to an important new development in commerce—the increased use of analytical methods.

Mechanical contrivances, such as adding and calculating machines, have had the effect of making analysis a very different task from what it once was.

At one time it was laborious and slow, and required the concentrated attention of a clerk of some experience. Now it is almost automatic in its simplicity, and masses of figures can be dealt with at considerable speed.

Thus a firm having sent out £10,000 worth of goods during January can pass the Day Books to one or two juniors, and by a process that divides every invoice up into its various parts under different headings can analyse not for three articles only, but for thirty.

This system can be carried right through all the account books of the office, and by imposing check upon check if necessary, absolute accuracy can be relied upon, and a set of totals be obtained which daily, weekly, or monthly confirms the official additions.

What Departmental Accounts Are

Departmental Accounts are accounts relating to the various divisions or departments of a business. The object of keeping them is to enable the separate profits of each department to be clearly seen, and, consequently, each item that appears in an ordinary Trading and Profit and Loss Account must be analysed so that the right amounts shall be charged to each department.

Columnar Purchases and Sales Books

To facilitate the keeping of separate Ledger accounts for each department, it is necessary to use columnar Purchases and Sales Books, also Returns Books, as shown in the following specimens—

DEPARTMENTAL PURCHASES BOOK

Date	Name	Led. Fol.	Total			Woollens			Cottons			Silks			Velvets		
19..			£	s.	d.	£	s	d	£	s	d.	£	s	d	£	s.	d.

DEPARTMENTAL SALES BOOK

Date	Name	Led. Fol.	Total			Dept. 1			Dept. 2			Dept. 3			Dept. 4		
19..			£	s.	d	£	s	d.	£	s.	d.	£	s	d	£	s.	d.

DEPARTMENTAL RETURNS INWARDS BOOK

Date	Name	Led. Fol.	Total			A Dept.			B Dept.			C Dept.			D Dept.		
19..			£	s.	d	£	s	d.	£	s	d.	£	s	d.	£	s.	d.

The headings of the columns will vary according to the nature of the business, the department being named, numbered, or lettered as the case may be. Whenever this kind of analysis is employed, a "Total" column is necessary in order to serve as a check on the arithmetical accuracy of the analytical columns. If the vertical total of the Total column does not equal the cross or horizontal total of the analysis columns, it is evidence that some item or items have been omitted in the analysis, or that the columns have been incorrectly added.

Ledger Accounts

Where just merely a separate departmental account is desired, the Ledger Account will be in simple form for each department, as shown on the next page.

Dr. WOOLLENS DEPARTMENT *Cr.*

19..		£	s.	d.	19..		£	s.	d.
Jan. 1	To Stock				Dec. 31	By Sales			
Dec. 31	" Purchases . . .					" Returns Outwards .			
	" Carriage . . .					" Stock c/d . . .			
	" Returns Inwards . .								
	" Wages . . .								
	" Balance (Profit) . .								
Jan. 1	To Stock b/d . . .								

Where, however, a Departmental Trading Account is required, it will be necessary to keep separate Stock, Purchases, Sales, Returns, and Wages Accounts for each department. The following are specimens—

Dr. STOCK ACCOUNT—WOOLLENS *Cr.*

19..		£	s.	d.	19..		£	s.	d.

Dr. PURCHASES ACCOUNT—WOOLLENS *Cr.*

19..		£	s	d.	19..		£	s.	d

Dr. PURCHASES RETURNS ACCOUNT—WOOLLENS *Cr.*

19..			£	*s.*	*d.*	19..			£	*s.*	*d.*

Dr. SALES ACCOUNT—WOOLLENS *Cr.*

19..			£	*s.*	*d*	19..			£	*s*	*d.*

Dr. SALES RETURNS ACCOUNT—WOOLLENS *Cr.*

19..			£	*s*	*d.*	19..			£	*s.*	*d.*

Dr. WAGES ACCOUNT—WOOLLENS *Cr.*

19..			£	*s.*	*d.*	19..			£	*s.*	*d.*

Dr. TRADING ACCOUNT—WOOLLENS *Cr*

19..			£	s.	d.	19..			£	s.	d.

In some businesses the departmental principle is adopted even in the Ledger Accounts themselves, as follows—

Dr. STOCK ACCOUNT *Cr.*

Date	Details	A Dept.			B Dept.			Total			Date	Details	A Dept.			B Dept.			Total		
19..		£	s.	d	£	s	d	£	s	d.	19..		£	s.	d.	£	s.	d.	£	s.	d.

The above form would not, of course, be suitable for businesses with several departments, as it would necessitate having a Ledger of very inconvenient size.

Advantages of Departmental Accounts

Where Departmental Accounts are kept, it is possible, at balancing time, to arrive at the *gross* profit of each department or each separate class of goods. This, however, is not sufficient for all businesses. It is necessary in some businesses to analyse all the expenses, so as to be able to arrive at the *net* profit as well as the gross. The business, as a whole, might be making a very satisfactory net profit, and yet one or more of the departments might be working at a loss. Only separate departmental Trading and Profit and Loss Accounts will enable this fact to be clearly seen.

Another advantage is that the results for different years may be collected and kept for the purpose of comparison, thereby yielding much valuable information. These benefits outweigh the obvious disadvantages, namely, the extra labour and time involved in analysing the transactions and in keeping additional Ledger Accounts

Transactions Between Departments Themselves

Inter-departmental transactions, that is, Purchases from, and Sales to, the other departments, must be carefully dealt with from the accounting point of view. They may be added to the respective Purchases and Sales Accounts, or they may be passed through separate accounts. The appropriate method of treatment depends on the *price* at which such transfers are made, i.e. whether at cost, or at cost plus a small departmental charge for handling.

If such transfers are made at cost, they should not be treated as Sales by the issuing department. They should be *credited* to a separate account entitled " Goods Issued to Other Departments." At balancing time, they would be *debited* to the Trading Account of the receiving department, and *credited* to the Trading Account of the issuing department. Where transferred at a profit, they may be treated as ordinary Purchases by the receiving department, and as ordinary Sales by the issuing department.

Apportionment of Expenses Between Departments

It can be seen from the foregoing that the methods by which the goods are divided between the departments are comparatively simple. In the nature of things if certain goods are allotted to a certain department, to that department they will always go, until a definite change is made, which is unlikely. But this is not the case with expenses. Some expenses may be incurred for one department only; others may be incurred on account of the whole business, and the question arises, how shall the latter be apportioned?

There are four different methods of apportioning indirect or selling expenses among the various departments or classes of goods—

(1) By direct analysis; (2) According to the amount of floor space occupied by each department; (3) In proportion to the turnover of each department; and (4) According to the number of articles sold.

It is not always feasible to ascertain the exact amount by means of direct analysis; and the turnover method is considered to give as approximately accurate a result as any other way. Where *different* expenses are incurred by the departments, separate Trading Accounts must be prepared.

Various Methods of Apportionment in the Same Trading Account

In some cases, different methods of apportionment are used for different items even in the same Trading and Profit and Loss Account. Thus, Wages and Salaries may be analysed. Rent, Rates, and Taxes may be apportioned according to the floor space occupied by aach department. Insurance Premiums may be epportioned in the ratio of each department's Stock to the total departmental Stock insured. Printing and stationery may be allocated according to the figures obtained by direct analysis of the storekeeper's records. Workmen's Compensation Insurance may be divided in the ratio that each department's Wages and Salaries bear to the total departmental Wages and Salaries. The Discounts Received, including Reserves for such discounts, are apportioned among the departments in the ratio of each department's Purchases to the total departmental Purchases. In a similar way, the Discounts Allowed, including Reserves for such discounts, are allocated to the departments in the ratio that each department's Sales bear to the total departmental Sales. Carriage Outwards, Office Expenses, Postage, and Repairs may be apportioned by direct analysis, or in fixed or agreed proportions Depreciation is sometimes charged direct to the departments, according to the value of the assets held by them Some expenses, however, such as Interest on Capital, cannot be satisfactorily apportioned, and are, therefore, left intact, and carried to a General Profit and Loss Account.

The following examples illustrate each of the above four methods.

1. Allocation of Expenses by Direct Analysis

Steele, Flint, and Stone are equal partners in a business. Interest on Capital at the rate of 5 per cent per annum is to be allowed before dividing the profits. All other adjustments have been made. It is desired from the undermentioned particulars, to draw up Departmental Trading and Profit and Loss Accounts, showing gross and net profits of each department, and percentages of gross and net profit on turnovers respectively—

	£	s.	d.
Capital Accounts, 1st January—			
Steele	20,795	10	2
Flint	14,167	16	3
Stone	11,248	9	9
Drawing Accounts, 31st December—			
Steele	2,450	–	–
Flint	1,640	–	–
Stone	1,420	–	–
Cash at Bank	4,145	13	3
Cash in hand	751	9	2
Cash Creditor	1,650	–	–
Horses, Carts, etc	949	11	8
Fixtures, Fittings, etc.—			
X Dept.	1,257	3	10
Y Dept.	985	11	6
X Department			
Stock, 1st January	36,087	5	6
Purchases	64,123	11	8
Sales	88,416	7	5
Trade Expenses	11,485	6	9
Discounts Allowed	2,485	10	6
Discounts Received	2,132	9	5
Housekeeping Expenses	1,867	5	4
Sundry Creditors	9,017	6	9
Sundry Debtors	15,347	16	3
Stock, 31st December	34,695	10	2
Y Department			
Stock, 1st January	7,519	3	8
Purchases	37,438	15	2
Sales	46,516	10	7
Discounts Allowed	1,659	11	5
Discounts Received	1,085	18	2
Housekeeping Expenses	1,189	13	3
Trade Expenses	5,293	6	9
Sundry Debtors	4,418	17	6
Sundry Creditors	7,485	4	8
Stock, 31st December	9,736	15	4

DEPARTMENTAL TRADING AND PROFIT AND LOSS ACCOUNTS

For the Year Ending 31st December, 19..

Dr.

	X Dept. £	s.	d.	Y Dept. £	s.	d.	Total £	s.	d.
To Stock, 1st January .	36,087	5	6	7,519	3	8	43,606	9	2
,, Purchases . .	64,123	11	8	37,438	15	2	101,562	6	10
,, Balance (Gross Profit)	22,901	–	5	11,295	7	1	34,196	7	6
	£123,111	17	7	£56,253	5	11	£179,365	3	6
To Trade Expenses .	11,485	6	9	5,293	6	9	16,778	13	6
,, Housekeeping Expenses . .	1,867	5	4	1,189	13	3	3,056	18	7
,, Discounts Allowed .	2,485	10	6	1,659	11	5	4,145	1	11
,, Balance (Departmental Profit) . . .	9,195	7	3	4,238	13	10	13,434	1	1
	£25,033	9	10	£12,381	5	3	£37,414	15	1

Cr.

	X Dept. £	s.	d.	Y Dept. £	s.	d.	Total £	s.	d.
By Sales	88,416	7	5	46,516	10	7	134,932	18	–
,, Stock, 31st December	34,695	10	2	9,736	15	4	44,432	5	6
	£123,111	17	7	£56,253	5	11	£179,365	3	6
By Balance (Gross Profit) b/d . . .	22,901	–	5	11,295	7	1	34,196	7	6
,, Discounts Received .	2,132	9	5	1,085	18	2	3,218	7	7
	£25,033	9	10	£12,381	5	3	£37,414	15	1

GENERAL PROFIT AND LOSS ACCOUNT

For the Year Ending 31st December, 19..

Dr.

	£	s.	d.	£	s.	d.
To Interest on Capital—						
Steele . 5% on £20,795/10/2	1,039	15	6			
Flint . 5% on £14,167/16/3	708	7	10			
Stone . 5% on £11,248/ 9/9	562	8	6			
				2,310	11	10
,, Balance (Net Profit)—						
Steele	3,707	16	5			
Flint	3,707	16	5			
Stone	3,707	16	5			
				11,123	9	3
				£13,434	1	1

Cr.

	£	s.	d.	£	s.	d.
By Departmental Profits—						
X Dept.	9,195	7	3			
Y Dept.	4,238	13	10			
				13,434	1	1
				£13,434	1	1

Percentage of Gross Profit on Turnover: X Dept., 25·90; Y Dept., 24·28 (22,901 × 100 ÷ 88,416, etc.)
Percentage of Net Profit on Turnover: X Dept., 10·40; Y Dept., 9·11 (9,195 × 100 ÷ 88,416, etc)

BALANCE SHEET

As at 31st December, 19..

Liabilities	£	s.	d.	£	s.	d.
Sundry Creditors—						
X Dept.	9,017	6	9			
Y Dept.	7,485	4	8			
				16,502	11	5
Cash Creditor				1,650	–	–
Capital Accounts—						
Steele—						
Balance, 1st January	20,795	10	2			
Add Interest	1,039	15	6			
Add Share of Profit	3,707	16	5			
	25,543	2	1			
Less Drawings	2,450	–	–			
				23,093	2	1
Flint—						
Balance, 1st January	14,167	16	3			
Add Interest	708	7	10			
Add Share of Profit	3,707	16	5			
	18,584	–	6			
Less Drawings	1,640	–	–			
				16,944	–	6
Stone—						
Balance, 1st January	11 248	9	9			
Add Interest	562	8	6			
Add Share of Profit	3,707	16	5			
	15,518	14	8			
Less Drawings	1,420	–	–			
				14,098	14	8
			£	72,288	8	8

Assets	£	s.	d.	£	s.	d.
Cash at Bank	4,145	13	3			
Cash in hand	751	9	2			
				4,897	2	5
Sundry Debtors—						
X Dept	15,347	16	3			
Y Dept	4,418	17	6			
				19,766	13	9
Stock—						
X Dept.	34,695	10	2			
Y Dept.	9,736	15	4			
				44,432	5	6
Fixtures and Fittings—						
X Dept.	1,257	3	10			
Y Dept.	985	11	6			
				2,242	15	4
Horses and Carts				949	11	8
			£	72,288	8	8

DEPARTMENTAL TRADING AN

For the Half-yea

Dr

	No. 1 Dept.			No. 2 Dept.			No. 3 Dept.			No. 4 Dept.			No. 5 Dept.			Total		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d	£	s.	d.	£	s.	d.
To Stock, 1st July	417	11	8	395	16	6	407	6	2	527	6	10	627	13	6	2,375	14	8
,, Purchases	1,356	12	9	1,563	9	10	1,064	17	10	814	7	5	1,976	5	8	6,775	13	6
,, Expenses	105	4	2	147	5	10	189	7	6	231	9	2	273	10	10	946	17	6
,, Balance (Departmental Profit)	185	7	–	191	10	–	203	13	7	236	19	6	245	9	8	1,062	19	9
	£2,064	15	7	£2,298	2	2	£1,865	5	1	£1,810	2	11	£3,122	19	8	£11,161	5	5

2. Allocation of Expenses According to Floor Space Occupied

Brown and Green commenced a retail cash business on 1st July with a Stock of goods divided as follows: No. 1 Dept., £417 11s. 8d.; No. 2 Dept., £395 16s. 6d.; No. 3 Dept., £407 6s. 2d.; No. 4 Dept., £527 6s. 10d.; No. 5 Dept., £627 13s. 6d. They also had Fixtures and Fittings, £625 8s. 4d.; Cash, £998 17s.; and equal moieties of Capital.

The summary of the Cash Book for the half year ended 31st December, was as under—

	£	s.	d.		£	s.	d
To Sales—				By Purchases—			
No. 1 Dept. .	1,587	16	5	No 1 Dept. .	1,110	1	1
No. 2 Dept .	1,842	11	6	No 2 Dept. .	981	1	6
No. 3 Dept. .	1,368	8	10	No 3 Dept. .	937	7	4
No. 4 Dept .	1,245	9	4	No 4 Dept .	586	18	11
No 5 Dept. .	2,463	7	5	No 5 Dept .	1,767	13	4
				,, General Expenses	774	6	8
				,, Drawings—			
				Brown .	300	–	–
				Green . .	300	–	–

The following Purchases were unpaid on 31st December—No. 1 Dept., £246 11s. 8d.; No. 2 Dept., £582 8s. 4d.; No. 3 Dept., £127 10s. 6d.; No. 4 Dept., £227 8s. 6d.; No. 5 Dept., £208 12s. 4d. One quarter's Rent, £110, was also outstanding.

The Stocks on hand at 31st December were—No. 1 Dept., £476 19s. 2d.; No. 2 Dept., £455 10s. 8d.; No. 3 Dept., £496 16s. 3d.; No. 4 Dept., £564 13s. 7d.; No. 5 Dept., £659 12s. 3d.

To the Expenses must be added 20 per cent per annum for Depreciation of Fixtures and Fittings.

The Expenses are to be apportioned as follows—No. 1 Dept., $\frac{5}{45}$ths; No. 2 Dept., $\frac{7}{45}$ths; No. 3 Dept., $\frac{9}{45}$ths; No. 4 Dept., $\frac{11}{45}$ths; No. 5 Dept., $\frac{13}{45}$ths. Interest is to be allowed on partners' Capitals at the rate of 5 per cent per annum; and profits are divisible equally.

It is desired to draw up Departmental Trading and Profit and Loss Accounts, a General Profit and Loss Account, and a Balance Sheet. (See below.)

The Expenses are arrived at as follows—Amount paid, as per Cash Book, £774 6s. 8d., *plus* Outstanding Rent £110, *plus* half-year's Depreciation of Fixtures and Fittings, £62 10s. 10d. = total £946 17s. 6d.

The Creditors are made up of the amounts of the unpaid Purchases for the various Departments = total £1,392 11s. 4d.

The Cash balance at the end of the period is obtained as follows—Cash in hand at 1st July, £998 17s., *plus* Sales, £8,507 13s. 6d., *less* Purchases, £5,383 2s. 2d., *less* Expenses, £774 6s. 8d., *less* Drawings, £600 = balance £2,749 1s. 8d.

The Capital at commencement is arrived at thus—Stock, £2,375 14s. 8d., *plus* Cash, £998 17s., *plus* Fixtures, £625 8s 4d = total £4,000. This gives £2,000 as the amount for each partner.

3. Allocation of Expenses According to Turnover

The following are the particulars of a firm's trading for the year ending 31st December, 19... It is desired to prepare Departmental Trading

PROFIT AND LOSS ACCOUNTS

ENDING 31ST DECEMBER, 19..

Cr.

	No. 1 Dept.			No. 2 Dept.			No. 3 Dept.			No. 4 Dept.			No. 5 Dept.			Total		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
By Sales	1,587	16	5	1,842	11	6	1,368	8	10	1,245	9	4	2,463	7	5	8,507	13	6
,, Stock, 31st December . .	476	19	2	455	10	8	496	16	3	564	13	7	659	12	3	2,653	11	11
	£2,064	15	7	£2,298	2	2	£1,865	5	1	£1,810	2	11	£3,122	19	8	£11,161	5	5

GENERAL PROFIT AND LOSS ACCOUNT

FOR THE HALF-YEAR ENDING 31ST DECEMBER, 19..

Dr. | Cr.

	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
To Interest on Capital—							By Departmental Profits—						
Brown, 2½% on £2,000	50	–	–				No. 1 Dept.	185	7	–			
Green, 2½% on £2,000	50	–	–				No. 2 Dept.	191	10	–			
				100	–	–	No. 3 Dept.	203	13	7			
,, Balance (Net Profit)—							No. 4 Dept.	236	19	6			
Brown, ½	481	9	11				No. 5 Dept.	245	9	8			
Green, ½	481	9	10								1,062	19	9
				962	19	9							
				£1,062	19	9					£1,062	19	9

BALANCE SHEET

AS AT 31ST DECEMBER, 19..

LIABILITIES	£	s.	d.	£	s	d.	ASSETS	£	s.	d.	£	s.	d.
Creditors				1,392	11	4	Cash				2,749	1	8
Outstanding Rent				110	–	–	Stock—						
Capital Accounts—							No. 1 Dept.	476	19	2			
Brown, 1st July	2,000	–	–				No. 2 Dept.	455	10	8			
Add Interest	50	–	–				No. 3 Dept.	496	16	3			
Add Share of Profit	481	9	11				No. 4 Dept.	564	13	7			
							No. 5 Dept.	659	12	3			
	2,531	9	11								2,653	11	11
Less Drawings	300	–	–				Fixtures and Fittings	625	8	4			
				2,231	9	11	*Less* Depreciation	62	10	10			
Green, 1st July	2,000	–	–								562	17	6
Add Interest	50	–	–										
Add Share of Profit	481	9	10										
	2,531	9	10										
Less Drawings	300	–	–										
				2,231	9	10							
				£5,965	11	1					£5,965	11	1

and Profit and Loss Accounts, apportioning the expenses according to their respective turnovers—

	£	s	d.
Stock (Raw Materials and Finished Goods)—			
P Dept.	7,608	12	7
Q Dept.	6,372	9	4
Purchases (Raw Materials)—			
P Dept.	25,716	2	8
Q Dept.	12,626	11	5
Sales—			
P Dept.	51,579	17	11
Q Dept.	25,789	19	3
Exhibition Expenses	1,865	13	6
Wages—			
P Dept.	3,581	19	5
Q Dept.	1,658	2	10
Discounts on Purchases	1,186	17	4
Discounts on Sales	1,754	12	9
Debenture Interest	1,450	–	–
Stable and Motor Expenses	795	11	8
Sundry Debtors	16,415	10	7

	£	s.	d.
Postage, Telegrams, etc.	879	12	4
Sundry Expenses	2,408	2	7
Bad Debts	723	6	5
Difference in Exchange, *Dr.* Balance	29	14	11
Travellers' Commission and Expenses	2,675	13	6
Stationery, Sample Books, and Catalogues (£278 of these are still in stock)	2,145	10	4
Rent, Rates, and Taxes	824	18	6
Directors' Fees	875	–	–
Furniture and Fixtures	1,026	12	6
Horses, Harness, Motor Vans, and Vehicles	5,659	12	6
Salaries	2,946	17	6
Bad Debts Reserve, 1st January	716	2	8
Working Plant and Utensils	34,668	–	10
Insurance (£43 of this is still unexpired)	415	11	6

Depreciation of Working Plant, etc., 10 per cent; Horses, Harness, Motor Vans, etc., 20 per cent; Furniture, $2\frac{1}{2}$ per cent. Reserve for Bad Debts 5 per cent of Sundry Debtors. Stock of Raw Materials and Finished Goods, on 31st Dec., was P—Dept., £8,557 12s. 6d.; Q Dept., £7,598 6s. 10d.

DEPARTMENTAL TRADING AND PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDING 31ST DECEMBER, 19..

Dr.

	P Dept. £	s	d	Q Dept. £	s	d	Total £	s	d
To Stock, 1st January	7,608	12	7	6,372	9	4	13,981	1	11
,, Purchases	25,716	2	8	12,626	11	5	38,342	14	1
,, Wages	3,581	19	5	1,658	2	10	5,240	2	3
,, Balance (Gross Profit)	23,230	15	9	12,731	2	6	35,961	18	3
£	60,137	10	5	33,388	6	1	93,525	16	6
To Exhibition Expenses	1,243	15	8	621	17	10	1,865	13	6
,, Discounts	1,169	15	2	584	17	7	1,754	12	9
,, Debenture Interest	966	13	4	483	6	8	1,450	–	–
,, Stable and Motor Expenses	530	7	9	265	3	11	795	11	8
,, Postage, Telegrams, etc	586	8	3	293	4	1	879	12	4
,, Sundry Expenses	1,605	8	5	802	14	2	2,408	2	7
,, Bad Debts	482	4	3	241	2	2	723	6	5
,, Difference in Exchange	19	16	7	9	18	4	29	14	11
,, Travellers' Commission and Expenses	1,783	15	8	891	17	10	2,675	13	6
,, Stationery, Sample Books, etc	1,245	–	3	622	10	1	1,867	10	4
,, Rent, Rates, Taxes	549	19	–	274	19	6	824	18	6
,, Directors' Fees	583	6	8	291	13	4	875	–	–
,, Salaries	1,964	11	8	982	5	10	2,946	17	6
,, Bad Debts Reserve	69	15	3	34	17	7	104	12	10
,, Insurance	248	7	8	124	3	10	372	11	6
,, Depreciation									
Working Plant	2,311	4	1	1,155	12	–	3,466	16	1
Horses, Motors, etc	754	12	4	377	6	2	1,131	18	6
Furniture, etc	17	2	3	8	11	1	25	13	4
Balance (Net Profit)	7,889	16	5	5,060	12	11	12,950	9	4
£	24,022	–	8	13,126	14	11	37,148	15	7

Cr.

	P Dept. £	s	d	Q Dept. £	s	d.	Total £	s	d.
By Sales	51,579	17	11	25,789	19	3	77,369	17	2
,, Stock, 31st December	8,557	12	6	7,598	6	10	16,155	19	4
£	60,137	10	5	33,388	6	1	93,525	16	6
By Gross Profits b/d	23,230	15	9	12,731	2	6	35,961	18	3
,, Discounts on Purchases	791	4	11	395	12	5	1,186	17	4
£	24,022	–	8	13,126	14	11	37,148	15	7

The task of apportioning the expenses according to the turnovers seems rather difficult, but it is simplified by reducing the turnovers to decimals. This work can be performed at sight, as explained in *Pitman's Complete Mercantile Arithmetic*.

Thus, £51,579 17s. 11d is 51579·896, and £25,789 19s. 3d. is 25789·963, and £77,369 17s. 2d. is 77369·858. Now, 51579·896 ÷ 77369·858 = ·666 = $\frac{6}{9}$ths or $\frac{2}{3}$rds; and 25789·963 ÷ 77369·858 = ·333 = $\frac{3}{9}$ths or $\frac{1}{3}$rd. Two-thirds of the expenses will, therefore, be charged to "P" Dept., and one-third to "Q" Dept.

4. Allocation of Expenses According to Number of Articles Sold

From the following particulars of the Fancy Toilet Company, which makes and sells two specialities, namely, "Aurora" Face Powder, and "Excelsior" Hair Cream, it is desired to draw up Departmental Trading and Profit and Loss Accounts for the year ending 31st Dec., 19.., apportioning the undivided Expenses between the two departments according to the *number* of boxes of Face Powder, or bottles of Hair Cream, actually sold—

	£	s.	d.
Stocks, 1st January—			
Raw Materials—			
Face Powder	764	11	8
Hair Cream	408	5	6
Manufactured Goods—			
Face Powder	714	16	3
Hair Cream	298	3	10
Labels, Boxes, Bottles, etc.—			
Face Powder	229	12	6
Hair Cream	256	13	7
Purchases of Raw Materials—			
Face Powder	597	6	5
Hair Cream	587	12	6
Purchases of Labels, Boxes, Bottles, etc.—			
Face Powder	509	4	2
Hair Cream	318	11	8
Wages—			
Face Powder Dept	1,669	13	6
Hair Cream Dept.	652	8	9
Manufacturing Expenses—			
Face Powder Dept.	142	17	11
Hair Cream Dept.	256	13	4

DEPARTMENTAL TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

	Face Powder			Hair Cream			Total				Face Powder			Hair Cream			Total		
	£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d	£	s	d	£	s.	d
To Stocks, 1st January—										By Sales—									
Raw Materials	764	11	8	408	5	6	1,172	17	2	354,741 Boxes of Face Powder @ 6½d. per box	9,607	11	5				9,607	11	5
Manufactured Goods	714	16	3	298	3	10	1,013	–	1	61,638 Bottles of Hair Cream @ 1s. 6d. per bottle				4,622	17	–	4,622	17	–
Labels, Boxes, Bottles	229	12	6	256	13	7	486	6	1								14,230	8	5
,, Purchases—										,, Stocks, 31st December—									
Raw Materials	597	6	5	587	12	6	1,184	18	11	Raw Materials	785	12	2	359	14	7	1,145	6	9
Labels, Boxes, Bottles	509	4	2	318	11	8	827	15	10	Manufactured Goods	745	11	9	247	5	6	992	17	3
,, Wages	1,669	13	6	652	8	9	2,322	2	3	Labels, Boxes, Bottles	289	13	2	218	9	5	508	2	7
,, Manufacturing Expenses	142	17	11	256	13	4	399	11	3										
,, Balance (Gross Profit)	6,800	6	1	2,669	17	4	9,470	3	5										
£	11,428	8	6	5,448	6	6	16,876	15	–	£	11,428	8	6	5,448	6	6	16,876	15	–
To Salaries	234	18	10	40	16	6	275	15	4	By Gross Profits b/d	6,800	6	1	2,669	17	4	9,470	3	5
,, Advertising	2,721	5	11	472	16	9	3,194	2	8										
,, Printing and Stationery	303	16	9	52	15	10	356	12	7										
,, Postage	193	13	5	33	13	–	227	6	5										
,, Rent, Rates, and Taxes	462	2	–	80	5	10	542	7	10										
,, Sundry Expenses	201	12	1	35	–	8	236	12	9										
,, Balance (Net Profit)	2,682	17	1	1,954	8	9	4,637	5	10										
	£6,800	6	1	£2,669	17	4	£9,470	3	5		£6,800	6	1	£2,669	17	4	£,9470	3	5

	£	s.	d
Stocks, 31st December—			
Raw Materials—			
Face Powder	785	12	2
Hair Cream	359	14	7
Manufactured Goods—			
Face Powder	745	11	9
Hair Cream	247	5	6
Labels, Boxes, Bottles, etc.—			
Face Powder	289	13	2
Hair Cream	218	9	5
Salaries	275	15	4
Advertising	3,194	2	8
Printing and Stationery	356	12	7
Postage	227	6	5
Rent, Rates, and Taxes	542	7	10
Sundry Expenses	236	12	9

Sales—

Face Powder, 354,741 boxes @ 6½d per box.
Hair Cream, 61,638 bottles @ 1s 6d. per bottle

(See opposite page.)

The apportionment of the expenses according to the *number* of articles sold is undoubtedly a formidable task, as even when the figures are reduced to decimals, very troublesome divisions and multiplications are involved.

$$354{,}741 + 61{,}638 = 416{,}379$$

$$\frac{354{,}741}{416{,}379} = \cdot851967, \text{ and } \frac{61{,}638}{416{,}379} = \cdot148033$$

In order to obtain absolute accuracy, it is necessary to take at least *six* decimal places. Care must be taken to see that the two decimal parts when added together exactly *equal* unity; they must not be either *greater* or *less*.

Each of the amounts to be apportioned must be reduced to decimals, and then multiplied by its appropriate decimal part of the total number of articles sold. Thus, Salaries £275 15s. 4d. will be $275\cdot767 \times \cdot851967 =$ £234·938, or £234 18s. 9d. for the Face Powder Dept.; and $275\cdot767 \times \cdot148033 =$ £40·823, or £40 16s. 5½d. for the Hair Cream Dept. And so on with the others.

Owing to the neglect of decimals beyond three places in the result, it may be necessary to make a slight adjustment in the final pence figures, so that the two departmental amounts may exactly equal the total amount of each expense in the Total column.

Separate Trading Accounts for Each Department

It will be noticed that in the previous examples the columnar principle has been extended from the subsidiary books to the final accounts themselves, but sometimes this is not possible. In the motor trade, for example, the transactions may not be sufficiently large to warrant the keeping of columnar ledgers, and, therefore, the accounts are kept separate, as in the following example.

The following are the particulars of the "Beatall" Motor Car Works, Limited, from which it is desired to prepare Trading Accounts for each individual Department—

	£	s.	d.
Debenture Interest	150	–	–
Fixtures and Fittings	84	12	6
Garage Rents Received	98	16	6
Loose Plant and Tools	247	6	8
Sales of Petrol and Oil	986	4	8
Sundry Debtors	3,147	16	6
Expenses of Hire Cars	237	12	6
Cars Bought for Resale	14,250	–	–
Stock of Accessories (Tyres, Tubes, Petrol, Oil, etc.) at end of Current Year	386	2	5
Carriage on Cars Sold	129	11	8
Stock of Cars for Hiring Out	725	10	4
Management Expenses	536	8	4
Accessories (Tyres, Tubes, etc.) Used	2,475	15	6
Profit and Loss Account, *Cr.* balance, 1st January	714	15	2
Charged to Customers for Repair of Cars	976	4	8
Bad Debts	61	10	9
Sales of Motor-cars	16,546	10	6
Petrol, Oil, etc., Used	698	4	6
Charged to Customers for Hire of Cars	456	10	6
Sundry Receipts (Washing Cars, Charging Batteries)	175	3	8
Repairs to Plant, etc.	34	12	7
Sales of Accessories (Tyres, Tubes, etc.)	2,860	8	6
Bad Debts Reserve, 1st January	146	10	–
Wages in Yard	165	14	5
Cost of Repairs to Cars (Wages, Materials, etc.)	893	16	9

The following adjustments are necessary—Depreciation: Loose Plant and Tools, 20 per cent; Fixtures and Fittings, 5 per cent; Hire Cars, 20 per cent; Bad Debts Reserve, 5 per cent Sundry Debtors. The manager is entitled to a Commission of 5 per cent of the net profit after charging this commission.

MOTOR-CARS TRADING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. Cr

	£	s	d.		£	s	d
To Purchases	14,250	–	–	By Sales	16,546	10	6
„ Balance (Gross Profit)	2,296	10	6				
	£16,546	10	6		£16,546	10	6

ACCESSORIES TRADING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. Cr

	£	s.	d.		£	s.	d
To Accessories Used	2,475	15	6	By Sale of Accessories	2,860	8	6
„ Petrol, Oil, etc., Used	698	4	6	„ Sale of Petrol, Oil, etc.	986	4	8
„ Balance (Gross Profit)	672	13	2				
	£3,846	13	2		£3,846	13	2

REPAIRS TRADING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. Cr.

	£	s.	d.		£	s.	d.
To Cost of Repairing Cars	893	16	9	By Amounts Charged to Customers for Repair of Cars	976	4	8
„ Balance (Gross Profit)	82	7	11				
	£976	4	8		£976	4	8

HIRE CARS TRADING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. Cr.

	£	s.	d.		£	s.	d.
To Expenses of Hire Cars	237	12	6	By Charges to Customers for Hire of Cars	456	10	6
„ Depreciation of Hire Cars—20% on £725 10s. 4d.	145	2	1				
„ Balance (Gross Profit)	73	15	11				
	£456	10	6		£456	10	6

PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDED 31ST DECEMBER, 19.. *Cr.*

		£	s	d.		£	s	d.
To Carriage on Cars Sold		129	11	8	By Trading Accounts (Gross Profits)—			
,, Management Expenses		536	8	4	Motor-cars	2,296	10	6
,, Bad Debts		61	10	9	Accessories	672	13	2
,, Repairs to Plant, etc.		34	12	7	Repairs	82	7	11
,, Debenture Interest		150	–	–	Hire Cars	73	15	11
,, Wages in Yard		165	14	5	,, Garage Rents	98	16	6
,, Bad Debts Reserve—					,, Sundry Receipts	175	3	8
5% on £3,147 16s 6d	£157 7 10							
Less Old Reserve	146 10 –							
		10	17	10				
,, Depreciation—								
Loose Tools, Plant, etc.—								
20% on £247 6s 8d.		49	9	4				
Fixtures, etc.—								
5% on £84 12s 6d.		4	4	8				
,, Manager's Commission $\frac{5}{105}$ £2,256 18s 1d		107	9	5				
,, Balance (Net Profit)		2,149	8	8				
		£3,399	7	8		£3,399	7	8

As the manager's Commission is on the net profit *after* allowing for the Commission, the calculation must be made on the *gross* amount distributable, namely, £2,256 18s. 1d. Out of this amount, the manager gets £5 for every £100 the business gets; therefore, £105 goes out each time, and of this the manager gets £5. $\frac{5}{105}$ths of the gross amount distributable, namely, £107 9s. 5d. is exactly equal, as can be seen, to 5 per cent of the actual *net* profit.

Tabular System of Book-keeping

From the foregoing it can be seen that the method of using columns for the purpose of obtaining information is of great advantage to the departmental store, but the method does not stop there. It is adapted for use in other businesses by being extended into the Tabular System of keeping books and accounts.

The special features of the Tabular System of book-keeping are—(1) The columnar method of entry; (2) the continuous analysis or classification, designed to save the trouble of periodical dissection and summarizing; (3) the provision of a "Total" column, in order that the arithmetical accuracy of the analysis can be checked by means of cross-casting.

Advantages and Disadvantages

The advantages of the system are many. It is simple in application, and can be applied both to statistical books and to books of account. It saves both time and clerical labour. Tabulated details are frequently of great importance. Besides affording additional information, they also furnish valuable data for comparison, for estimating, and for other business purposes.

The alleged disadvantages of the tabular system are that it necessitates the provision of books of unwieldy dimensions; that it is very liable to error, as items can be so easily entered in the wrong column, and thus destroy the value of the analysis.

Distinction Between Columnar System and the Tabular System

Strictly speaking, there is a difference between Columnar book-keeping and Tabular book-keeping. Columnar book-keeping refers to the system of using subsidiary books, such as Purchases, Sales, Returns, Cash, and Petty Cash Books, provided with as many columns as the nature and requirements of the business demand. Tabular book-keeping denotes the system of using debit and credit Ledger pages as daily analytical records. The main object of the Columnar system is to facilitate analysis, columns being provided for departments, branches, ledgers, or for expenditure generally. The main object of the Tabular system is to facilitate the keeping of numerous Ledger Accounts on one page, analysis being rather a natural consequence than an intentional design.

Either through being overlooked, or through being regarded as of trivial importance, the distinction, however, is seldom made, and much less seldom observed. Most accountants use both terms as though they were quite interchangeable. The obvious common feature of both the Columnar System and the Tabular System being *analysis*, the two terms have come to be regarded as identical. But the point is certainly worth noting.

Tabular Books of Account

Specimens of columnar subsidiary books will be found in several of the preceding chapters,

VISITORS

MONDAY, 6TH

DEBITS	1			Mrs. Johnson 2			Mr Stone 3			Mrs. Andrew 4		
	£	s	d	£	s.	d	£	s.	d.	£	s.	d
Balance brought forward												
Apartments					5	–		6	–		10	6
Attendance					2	–		2	–		2	–
Baths								1	–			
Fire and Lights												
Boarders												
Breakfasts					3	–		2	6		1	6
Luncheons					1	6		2	–		2	–
Dinners								5	6		4	6
Dessert and Ices												
Sandwiches												
Tea and Coffee					1	6					1	–
Soups												
Suppers												
Servants' Board											8	–
Wine								3	–			
Spirits								1	–			
Ales, Stout, etc.												6
Minerals									6			
Cigars												
Stationery												
Newspapers												
Postage												
Paid Out												
Washing												
Carriage												
Billiards												
TOTAL					13	–	1	3	6	1	10	–
CREDITS												
Overcharges												
Cash Received												
Ledger Account												
Balance carried forward					13	–	1	3	6	1	10	–
TOTAL					13	–	1	3	6	1	10	–
Folio Ledger Account Transferred to												

to wit, the chapter on the Purchases Book, the Sales Book, the Returns Books, the Cash Book, the Petty Cash Book, Self-Balancing Ledgers, Departmental Accounts, and others. Examples of tabular Journals appear in the chapter on Self-Balancing Ledgers.

Examples of Tabular Ledger Accounts are given in Departmental Accounts, Branch Accounts, Investment Accounts.

Examples of tabular Ledgers are the Cost Ledger, Share Ledger, Stores Ledger, Bills Receivable and Payable Ledgers, all of which are given in their various chapters; further examples are the Hotel Visitors' Ledger, the

LEDGER
JUNE, 19..

5			DEBITS	Daily Total			Brought Forward			Carried Forward		
£	s	d.		£	s.	d.	£	s.	d	£	s.	d.
			Balance brought forward									
			Apartments	1	1	6				1	1	6
			Attendance		6	–					6	–
			Baths		1	–					1	–
			Fire and Lights									
			Boarders									
			Breakfasts		7	–					7	–
			Luncheons		5	6					5	6
			Dinners		10	–					10	–
			Dessert and Ices									
			Sandwiches									
			Tea and Coffee		2	6					2	6
			Soups									
			Suppers									
			Servants' Board		8	–					8	–
			Wine		3	–					3	–
			Spirits		1	–					1	–
			Ales, Stout, etc.			6						6
			Minerals			6						6
			Cigars									
			Stationery									
			Newspapers									
			Postage									
			Paid Out									
			Washing									
			Carriage									
			Billiards									
			TOTAL	3	6	6				3	6	6
			CREDITS									
			Overcharges									
			Cash Received									
			Ledger Account									
			Balance carried forward	3	6	6				3	6	6
			TOTAL	3	6	6				3	6	6
			Folio Ledger Account									
			Transferred to									

Consumers' Ledger, and the Rental Register shown below.

Tabular Statistical Books

The principle is also applied to books which do not form part of the ordinary double-entry system, but which are necessary for special purposes.

Specimens of these are seen in the Application, Allotment, and Call Books, in the Register of Transfers, and other books of a joint stock company; in the Policy Registers of an Insurance Company; in the Register of Investments of an Investment Company; in Cost Accounts in the Stores Received and Issued Books, in the Wages Analysis Book, and in the Allocation of Stores Issued Book.

RENTAL REGISTER

Situation of Property	Annual Rental *Dr*			Arrears Brought Forward *Dr*			Quarter Ending March			Quarter or Half-year Ending June			Quarter Ending September			Quarter or Half-year Ending December			Total Cash Received *Cr*			Allowances						Arrears Carried Forward *Dr.*		
																							Property Tax *Cr*			Repairs *Cr*					
	£	s	d	£	s.	d	£	s.	d	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d.

TABULAR INVOICE BOOK FOR HOTEL

Date	Name	Ledger Folio	Total			Grocery			Provisions			Wines, Spirits, and Liqueurs			Ale, Beer, and Minerals			Cigars, Cigarettes, and Tobacco			Cutlery, Plate, and Glass			Furniture, Fixtures, etc			House, Bed, and Table Linen			Sundries		
19..			£	s	d.	£	s.	d.	£	s	d	£	s.	d.	£	s	d.	£	s	d	£	s	d	£	s.	d	£	s	d	£	s.	d.

REGISTER OF INVESTMENTS

Nature of Security . . . .
Due Dates of Dividends or Interest . . . .
Date of Redemption (if any) . . . .

Date Bought	Nominal Value			Cost Price per cent	Amount			Brokerage and Stamps			Total Cost			Dividends or Interest Paid		Date of Sale	Nominal Value			Sale Price per cent	Net Amount of Sale			Profit on Sale			Loss on Sale		
														Date	Rate														
19	£	s	d.		£	s	d	£	s	d	£	s	d				£	s	d		£	s	d	£	s	d	£	s	d.

CONSUMERS' LEDGER

No of Assessment	Street and Number	Rateable Value	Arrears Brought Forward *Dr.*			Half-year's Charges *Dr.*			Extras *Dr*			Total Amount Due *Dr.*			Folio	Cash Received *Cr*			Folio	Allowances *Cr.*			Total Cash and Allowances *Cr.*			Arrears Carried Forward *Dr*		
		£	£	s	d	£	s	d	£	s	d	£	s.	d		£	s.	d		£	s	d.	£	s	d.	£	s	d.
131	Flaxfield Street, 21	35		7	6	1	1	–				1	8	6		1	8	6					1	8	6			
132	Flaxfield Street, 22	35		5	–	1	1	–		3	–	1	9	–		1	6	–					1	6	–		3	–
133	Flaxfield Street, 23	45				2	2	6		4	6	2	7	–		2	5	6			1	6	2	7	–			

The above form of Ledger is suitable for a Gas Company, a Water Company, or an Electric Light Company.

PLANT REGISTER OR LEDGER

Nature of Machine : *Puncher and Shearer.* Location : *Machine Shop.* Makers : *Brown & Co , Birmingham*
Estimated Life : 10 *Years* Depreciation : 10% *on Cost* Estimated Residual Value : £60

Date	Details	Folio	Original Cost	Additions	Depreciation Written Off	Book Value	Renewals			Repairs		
							Parts	Wages	Total	Materials	Wages	Total
			£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d
19[illegible] Jan [illegible]	Purchase[illegible]	[illegible]	[illegible]									
June 26	[illegible]	[illegible]									5 [illegible]	5 5 –
19[illegible] Dec 31	Depreciation	[illegible]			[illegible] – –	[illegible] – –						
19[illegible] Mar 20	New Cogs	7[illegible]					15 [illegible]	2 2	17 7 [illegible]			
19[illegible] Dec 31	Depreciation	[illegible]			[illegible]	[illegible] – –						

CHAPTER XXVIII

BRANCH ACCOUNTS, FOREIGN EXCHANGE, FOREIGN BRANCHES

BRANCH Accounts are usually divided into three principal classes—

1. Branches which make returns only. From these returns, which supply the necessary information, the Branch book-keeping is done entirely at the head office.

2. Branches which do their own book-keeping. At balancing time, however, the branches send up to the head office a copy of their Trial Balance for the trading results to be incorporated in the head office books.

3. Foreign Branches.

The first two classes are again divided into wholesale and retail branches; while the kind of business itself exercises an important influence on the methods of accounting.

Branch Agency

There is a certain exceptional class which must be recognized in this chapter, because the accounts are treated as branch accounts, and relate to an actual branch of the business.

The kind of business is best explained by a supposititious illustration.

Mantle & Cobb, Ltd., of Belfast, are manufacturers and packers of grocers commodities, such as baking powder, cocoa, tea, lemon peel, confectionery, and similar goods.

Owing to steam-boat communication and cheap freight they do a good business in Southampton, where they have a thriving branch agency.

All goods are charged to the branch agency at the same wholesale price as the branch agency supplies shopkeepers, but the agent is allowed a commission of 10 per cent out of which he must pay warehouse local office selling costs, and allow discount ($1\frac{1}{4}$ per cent to $2\frac{1}{2}$ per cent) to customers.

The stock belongs to Messrs. Mantle & Cobb. The goods are sent out in their name accompanied by their invoices. Duplicates of the invoices are sent to Belfast, where the Ledger Accounts are kept.

Cash Sheets showing all cash received, are furnished by the branch agency every day, and remittances, less 10 per cent, are sent weekly to balance.

This Branch Agency Account is debited with goods sent to the agency and credited with goods invoiced to customers.

Having dealt with this exceptional kind of Branch we now pass to more ordinary instances, and explain the methods of accountancy in detail.

Issuing Stock to Branches

When a branch is opened, the stock transferred to it should not be treated in the head office books as a sale, otherwise such books will show a fictitious turnover. The value of the goods should be debited to a Branch Account, and credited to a "Goods sent to Branches Account." At balancing time, the total of the latter account is transferred to the credit of Trading Account, and thus appears as a separate item underneath the sales instead of being merged in the Sales total.

Where there are several branches, each supplied with goods from the head office, a book ruled in columnar form is usually employed to record such issues. The following is a specimen—

BRANCH SUPPLIES BOOK

Date	Particulars	Total			X Branch			Y Branch			Z Branch		
19..		£	s.	d.	£	s.	d.	£	s.	d.	£	s	d.

The totals of the columns are debited periodically to the separate Branch Accounts, and credited to a " Goods sent to Branches Account."

The goods issued to branches may be charged out to them, according to the nature of the business, as follows—

1. At cost.
2. At a fixed percentage on cost.
3. At selling price.

In the multiple shop system, where there is one head establishment with numerous selling depots, the goods are charged to the branches at selling price. There is thus a definite check upon such branches; for what the branch cannot produce in money, it must have in stock (taken at selling price). Special stocktakers are employed to take stock weekly or fortnightly, in in order to see if there is any discrepancy or not.

When goods are charged to branches at a percentage on cost, or at selling price, the Branch Supplies Book requires double columns for each branch, one column to record the cost price for the purpose of the Trading Account, and another column to record the invoice price for the purpose of debiting the respective Branch Accounts.

The following is a specimen—

by cheque direct from the head office, or else by means of the imprest system; whatever the branch spends for such purposes out of the original sum advanced to it, is repaid to the branch by the head office. In some cases, however, the wages and petty charges are paid out of the cash takings, and only the balance remitted to the head office, together with a statement of the expenses so paid.

The Head Office Cash Book usually contains extra columns on each side for Branch Receipts and Branch Payments; and the totals of these columns are posted periodically to the Branch Accounts. The branch itself keeps merely a small rough Cash Book to record its daily takings, and also its disbursements (if any).

Branch Returns

The head office usually requires the branch to make what are called " Returns." The information required will vary, to some extent, according to the nature of the business; but, generally speaking, where the Branch Sales are exclusively for cash, the branch is required to make returns of—

1. Its daily takings, with a departmental analysis of such sales, if necessary;

BRANCH SUPPLIES BOOK

Date	Particulars	TOTAL						X BRANCH						Y BRANCH					
		Cost Price			Invoice Price			Cost Price			Invoice Price			Cost Price			Invoice Price		
19..		£	s	d.	£	s.	d.	£	s.	d.	£	s	d.	£	s	d	£	s.	d.

Branch Receipts and Payments

The receipts from the Cash Sales, and also from the Ledger Accounts where the branch does credit transactions, are either paid in to the credit of the Head Office Account at some local bank, or else remitted day by day direct to the head office itself.

The branch expenses, such as rent, rates and taxes, wages, and petty charges, are either paid

2. Its wages and other expenses, likewise dissected, if necessary;
3. Any commission that has accrued to the assistants or manager;
4. Statistical information regarding the stock on hand, and probable future requirements.

Where the branch sales are partly for cash and partly on credit, the following further particulars are required—

5. What accounts have been settled since last return;
6. The cash received, Discounts, Returns, and Allowances in connection with such settlements;
7. Particulars of Bad or Doubtful Debts;
8. Particulars of credit sales since last return;
9. Debtors outstanding at date of current return, as per the Branch Memorandum Debtors' Ledger.

From the information thus supplied by the branches, the head office is able to write up the various Branch Accounts in its own books.

RETAIL BRANCHES

Worked Example 1—At Cost Price

From the following particulars, it is desired to prepare the Branch Account as it would appear in the head office books. The branch sales are exclusively for cash, and the goods sent to the branch have been charged out at cost price—

	£	s.	d.
Goods from head office	5,627	12	4
Returns to head office	38	9	2
Rates, taxes, and insurance paid	81	4	6
Wages paid	294	11	2
Cash remitted to head office	6,827	13	9
Stock, 1st January	814	11	5
Rent paid	142	10	6
Stock, 31st December	875	9	3
Sundry expenses paid	86	12	7

(See below.)

Worked Example 2—Percentage Added

From the following particulars, it is desired to prepare the Branch Account as it would appear in the Head Office Books. The branch sales are for cash only. The goods sent to the branch have been charged out at 25 per cent on cost—

	£	s	d
Goods sent to branch, *less* returns	7,028	10	10
Wages and salaries paid	356	11	4
Cash remitted by branch	6,941	8	7
Stock, 1st January	875	15	5
Rates, taxes, and insurance paid	92	4	6
Rent paid	157	10	6
Stock, 31st December	957	12	11
Sundry expenses paid	31	15	8

(See next page.)

When goods are charged out to the branch at a percentage on cost, that percentage must be taken off at balancing time. The branch opening Stock, its closing Stock, and the goods sent to the branch must be reduced to cost before being entered in the Account.

It should be noted, however, that if a percentage has been added to the cost, the *same* percentage taken off will not reduce the goods to their original value.

For instance, let us suppose that £500 worth of goods has been sent to a branch with 25 per cent added on; then the goods will have been invoiced to the branch at £625. Now, 25 per cent taken off £625 will not reduce it to £500. We must reason thus: Of every £125, £25 is added; the increase is, therefore, $\frac{25}{125}$, or $\frac{1}{5}$th; and, consequently, one-fifth must be taken off in order to get at the original amount. In the foregoing example, the two Branch Stocks, and the goods sent to the branch, have been decreased by one-fifth before being dealt with in the Branch Account.

Dr. BRANCH ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Jan. 1	To Balance (Stock)	814	11	5	Dec. 31	By Cash	6,827	13	9
Dec. 31	„ Goods from Head Office	5,627	12	4		„ Returns to Head Office	38	9	2
	„ Cash (Wages)	294	11	2		„ Stock c/d	875	9	3
	„ Cash (Rent)	142	10	6					
	„ Cash (Rates, Taxes, and Insurance)	81	4	6					
	„ Cash (Sundry Expenses)	86	12	7					
	„ Balance (Profit)	694	9	8					
	£	7,741	12	2		£	7,741	12	2
Jan. 1	To Balance b/d	875	9	3					

Dr. BRANCH ACCOUNT Cr.

		£	s.	d.			£	s.	d.
19..					19..				
Jan 1	To Balance (Stock)	700	12	4	Dec 31	By Cash	6,941	8	7
Dec. 31	„ Goods from Head Office	5,622	16	8		„ Stock c/d	766	2	4
	„ Cash (Rates, Taxes, and Insurance)	92	4	6					
	„ Cash (Wages and Salaries)	356	11	4					
	„ Cash (Rent)	157	10	6					
	„ Cash (Sundry Expenses)	31	15	8					
	„ Balance (Profit)	745	19	11					
	£	7,707	10	11		£	7,707	10	11
Jan. 1	To Balance (Stock) b/d	766	2	4					

Discrepancies

Where the Ledger Accounts contain double money columns, one for the invoice price, and one for the cost price, the account will show at a glance both the nominal and the actual gross profit. Any balance in the percentage columns will indicate that either more or less than the anticipated profit has been realized.

In the following account, which is merely a re-working of the previous example, but with double money columns, the actual gross profit is £5 4s. 9d. short of what it ought to be. This discrepancy would lead to an investigation as to whether the stock was being pilfered, or whether goods were being sold at less than the stipulated prices.

In some businesses, there will always be a slight discrepancy owing to breakage of bulk,

Dr. BRANCH ACCOUNT Cr.

		Invoice Price			Cost Price					Invoice Price			Cost Price		
		£	s.	d.	£	s.	d.			£	s.	d.	£	s	d.
19..								19..							
Jan. 1	To Balance (Stock)	875	15	5	700	12	4	Jan.-Dec.	By Cash	6,941	8	7	6,941	8	7
Dec. 31	„ Goods from Head Office	7,028	10	10	5,622	16	8	Dec. 31	„ Stock c/d.	957	12	11	766	2	4
	„ Balance (Gross Profit)				1,384	1	11		„ Balance (Apparent Loss)	5	4	9			
	£	7,904	6	3	7,707	10	11		£	7,904	6	3	7,707	10	11
Dec. 31	To Cash (Rates, Taxes, and Insurance)				92	4	6	Dec. 31	By Gross Profit b/d				1,384	1	11
	„ Cash (Wages and Salaries)				356	11	4								
	„ Cash (Rent)				157	10	6								
	„ Cash (Sundry Expenses)				31	15	8								
	„ Balance (Net Profit)				745	19	11								
				£	1,384	1	11					£	1,384	1	11
Jan. 1	To Balance (Stock) b/d	957	12	11	766	2	4								

e.g. buying in cwts. and selling in lb.; it is quite impossible to weigh up, at different times, 112 separate lb. out of one cwt., particularly if the article is in lumps like loaf sugar; some goods, like butter, lose weight through evaporation.

In some businesses, e.g. stationery, discrepancy is due to variations of price according to quantity sold; for instance, pencils which retail at 2d. each will probably be sold for 1s. 6d. per dozen; paper, which sells at so much per quire will be much less per ream or half-ream, and so on. Particulars of these must be furnished by the manager, and due allowances claimed in respect of them. A special credit entry of the total would be made in the Branch Account at balancing time, thus: "Allowances off Selling Price."

Some firms are very rigid in their rules about shortage, and expect to find cash or goods for the precise amount standing to the debit of the branch, and make it a rule to charge the manager's own salary with the difference. Others expect that there will be an occasional loss through pilferage, shrinkage, and errors.

Broadly speaking, whatever system is adopted the successful manager is too valuable a man to be harassed with trifles. His real worth lies in earning a profit for the business, and where he gains a reputation for ability to do this he can afford to let other things fall into right proportion.

It is the unsuccessful manager to whom the slight shrinking in value of the stock is the real bugbear. A loss on stock, coming on the top of a bad year may incline him personally to make good any shortage lest worse should happen.

Worked Example 3—Both Cash and Credit Sales

From the following particulars, it is desired to draw up the Branch Account or Accounts in the Head Office books. The goods sent to the branch have been charged out at cost; and the branch makes both cash and credit sales—

	£	s.	d.
Goods received from head office	2,548	12	9
Returns to head office	46	13	7
Stock, 1st January	756	14	8
Ready money sales	1,695	19	6
Six months' credit sales to 30th June	2,995	16	4
Allowances to customers	16	14	8
Discounts allowed to customers	128	18	5
Bad debts	29	13	4
Rent, rates, and taxes	96	17	8
Returns from customers	28	12	6
Wages and salaries	299	15	8
Debtors, 1st January	1,316	12	9
Stock, 30th June	698	16	10
Sundry expenses	65	16	11
Cash received on Ledger Accounts	2,459	18	6
Debtors, 30th June	1,648	11	8

Dr. BRANCH ACCOUNT *Cr.*

19..		£	s.	d.	19..		£	s.	d.
Jan. 1	To Balance—				Jan.–June	By Cash—			
	Stock . £ 756 14 8					Ledger Accounts	2,459	18	6
	Debtors . 1,316 12 9	2,073	7	5		R.M. Sales	1,695	19	6
June 30	,, Goods from Head Office	2,548	12	9	June 30	,, Returns to Head Office	46	13	7
	,, Rent, Rates, and Taxes	96	17	8		,, Balance c/d—			
	,, Wages and Salaries	299	15	8		Stock . £ 698 16 10			
	,, Sundry Expenses	65	16	11		Debtors . 1,648 11 8			
	,, Balance (Net Profit)	1,465	9	8			2,347	8	6
	£	6,550	–	1		£	6,550	–	1
July 1	To Balance b/d	2,347	8	6					

In the foregoing example, the debtors at commencement and close of the trading period have been treated like Stock, which is the simplest method of treatment. In other cases, however, where the turnover is fairly large, the method of treatment is more elaborate. Separate accounts are opened for Branch Goods, Branch Expenses, and Branch Debtors; while the trading results are shown in a separate Branch Profit and Loss Account, as shown on the next page.

Dr. BRANCH GOODS ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Jan 1	To Balance	756	14	8	June 30	By Cash Sales	1,695	19	6
Jan.-June	,, Goods from Head Office	2,548	12	9		,, Credit Sales	2,995	16	4
	,, Returns Inwards	28	12	6		,, Returns to Head Office	46	13	7
	,, Allowances	16	14	8		,, Stock c/d	698	16	10
	,, Branch Profit and Loss A/c (Gross Profit)	2,086	11	8					
	£	5,437	6	3		£	5,437	6	3
July 1	To Balance (Stock) b/d	698	16	10					

Dr. BRANCH EXPENSES ACCOUNT *Cr.*

		£	s	d			£	s.	d
19..					19..				
June 30	To Rent, Rates etc	96	17	8	June 30	By Transfer to Branch Profit and Loss Account	621	2	–
	,, Wages and Salaries	299	15	8					
	,, Sundry Expenses	65	16	11					
	,, Bad Debts	29	13	4					
	,, Discounts	128	18	5					
		£621	2	–			£621	2	–

Dr. BRANCH DEBTORS ACCOUNT *Cr.*

		£	s.	d.			£	s	d.
19..					19..				
Jan. 1	To Balance	1,316	12	9	Jan.-June	By Cash	2,459	18	6
Jan.-June	,, Credit Sales	2,995	16	4		,, Discount	128	18	5
						,, Returns Inwards	28	12	6
						,, Allowances	16	14	8
						,, Bad Debts	29	13	4
						,, Balance c/d	1,648	11	8
	£	4,312	9	1		£	4,312	9	1
July 1	To Balance b/d	1,648	11	8					

Dr. BRANCH PROFIT AND LOSS ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
June 30	To Branch Expenses	621	2	–	June 30	By Branch Goods Account (Gross Profit)	2,086	11	8
	,, Head Office Profit and Loss Account (Net Profit)	1,465	9	8					
	£	2,086	11	8		£	2,086	11	8

Depreciation of Branch Assets

Where the branch possesses assets, such as Fixtures and Fittings, and Trade Utensils, the depreciation on them is usually dealt with only in the Head Office Depreciation Account, as is implied in the previous worked examples. In some cases, however, it is shown in the Branch Accounts themselves, thus reducing the branch profits.

Approximate Stock Accounts

Where goods are charged out to branches at selling price, or at a fixed percentage on cost, there is a check upon the Stock; but where goods are charged out at cost price, there is no such check. In order to provide one, it is customary to prepare, monthly, Approximate or Estimated Stock Accounts, so as to avoid the long and tedious process of stocktaking. Where the rate of gross profit is a fixed percentage of the selling price, a fairly accurate result may be obtained by adding to the Stock at start the subsequent net purchases, and deducting from the total the net Sales for the same period, after reducing them by the said percentage of gross profit. The following is an example—

Dr. APPROXIMATE STOCK ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Jan. 1	To Stock.	3,120	10	6	Jan. 31	By Sales (less Returns) . .	1,548	12	6
31	,, Purchases (*less* Returns) .	928	11	3		*Less* (say) 25% . .	387	3	1
							1,161	9	5
					31	,, Balance (Estimated Stock) .	2,887	12	4
	£	4,049	1	9		£	4,049	1	9
Feb 1	To Balance b/d	2,887	12	4					

These Estimated Stock Accounts are recorded in a book kept especially for the purpose, and enable Approximate Trading and Profit and Loss Accounts to be prepared monthly. They are also useful for making claims on insurance companies for loss of Stock-in-trade by fire.

The advantage of keeping a Stock Account of the kind shown above is that where there is the advantage of experience, it becomes possible to estimate the deduction that must be made from sales within very narrow limits.

Where a firm with several branches has its special staff of stocktakers travelling around, it may not always be possible for all stocktaking to take place simultaneously.

The financial year, however, must terminate on one definite date, and the precise value of all stocks at that date must be shown in the Trading Account and Balance Sheet.

In some cases, therefore, the staff of each branch would take stock for this purpose.

As goods are usually invoiced to branches at selling price, the branch stock at any time can be definitely arrived at by the head office. The actual stocktaking is merely a confirmatory process.

WHOLESALE BRANCHES

In wholesale branches, where there is a very much bigger volume of trade, and the transactions large and important in themselves, the accounts are kept in a manner similar to Departmental Accounts.

Separate Stock, Purchases, Sales, and Returns Accounts are opened for each branch; thus, Branch X Stock Account, Branch Y Stock Account; Branch X Purchases Account, Branch Y Purchases Account; Branch X Sales Account, Branch Y Sales Account, and so on.

Separate expense accounts are also kept for the branches; thus, Branch X Wages Account, Branch Y Wages Account; Branch X Rent Account, Branch Y Rent Account, and so on.

In many cases, separate Ledgers are kept for each branch. Branch X Debtors' Ledger contains the personal accounts of the customers of Branch X. Branch X General Ledger contains the asset accounts of the branch, such as Fixtures and Fittings, Horses and Carts, etc., and also the nominal accounts of the branch, such as Rent, Rates, Wages, Discounts, and Bad Debts.

The buying is generally done by the head office itself, which therefore keeps the Creditors' Accounts in its own books, merely distributing the goods to the branches for sale. In some

cases, however, the branches are allowed to obtain, from outside sources, certain goods that they require, the goods being sent direct to the branch, and the invoice to the head office.

As regards the sales, the branches usually make out the invoice in triplicate, one copy being forwarded to the customer, one to the head office, and the other retained by the branch for its own use.

A Columnar Trading and Profit and Loss Account is usually prepared, which shows not only the total profits, but also the separate profits of each branch. Where the head establishment is a factory, which invoices the goods to its branches at a profit, an extra column is provided in the Trading Account in order to show the factory profit as well as the profits of the branches.

Worked Example of Wholesale Branches

The following are the particulars relating to a head office and its two wholesale branches. It is desired to prepare the final accounts and Balance Sheet as they would appear in the Head Office books.

	Head Office			Eastern Branch			Western Branch		
	£	s.	d	£	s	d	£	s.	d
Stock, 1st January, 19 .				4,826	10	8	4,226	18	7
Purchases, *less* Returns				11,876	11	9	9,716	16	4
Carriage Inwards				516	19	8	450	14	6
Sales, *less* Returns				27,859	12	10	22,974	19	8
Debtors				17,246	12	4	14,984	12	6
Bills Payable	2,694	16	8						
Creditors	8,349	19	8						
Discounts Allowed				1,616	18	6	1,512	19	8
Directors' Fees	560	–	–						
Discounts Received				527	14	9	418	17	6
Reserve Account	7,500	–	–						
Bad Debts				634	16	2	514	19	4
Salaries	985	14	8						
Debenture Interest	475	–	–						
Wages				2,297	16	4	1,706	16	10
Rent, Rates, and Taxes	245	16	8	357	19	2	290	16	2
Furniture, Fixtures, etc.	126	16	2	316	18	4	289	16	2
Travellers' Salaries and Expenses				3,168	15	4	2,106	14	8
Horses, Harness, Vehicles, etc				1,974	19	6	1,568	19	6
Cash in hand	24	19	2	78	19	2	58	10	2
Cash at Bank	10,745	19	11						
Sundry Expenses				3,167	12	4	3,120	19	10
Horse and Stable Expenses				329	14	10	250	11	4
Share Capital (25,000 Shares of £1 each, fully paid)	25,000	–	–						
Interim Dividend, 8%	2,000	–	–						
5% Debentures	9,500	–	–						
Depreciation	23	18	4	236	11	10	189	14	8
Reserve for Bad Debts, 5% Drs									
Stock, 31st December				5,812	18	11	4,956	11	6

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

Dr.

	Eastern Branch £	s	d	Western Branch £	s	d	Total £	s	d
To Stock, 1st January .	4,826	10	8	4,226	18	7	9,053	9	3
,, Purchases, Net	11,876	11	9	9,716	16	4	21,593	8	1
,, Carriage Inwards	516	19	8	450	14	6	967	14	2
,, Wages . .	2,297	16	4	1,706	16	10	4,004	13	2
,, Balance (Gross Profit) c/d	14,154	13	4	11,830	4	11	25,984	18	3
£	33,672	11	9	27,931	11	2	61,604	2	11
To Discounts Allowed . .	1,616	18	6	1,512	19	8	3,129	18	2
,, Bad Debts .	634	16	2	514	19	4	1,149	15	6
,, Rent, Rates, etc . .	357	19	2	290	16	2	648	15	4
,, Travellers' Salaries and Expenses . . .	3,168	15	4	2,106	14	8	5,275	10	–
,, Sundry Expenses . .	3,167	12	4	3,120	19	10	6,288	12	2
,, Horse and Stable Expenses	3[illegible]9	14	10	250	11	4	580	6	2
,, Depreciation . . .	236	11	10	189	14	8	426	6	6
,, Bad Debts Reserve .	862	6	7	749	4	8	1,611	11	3
,, Balance (Net Profit)	4,307	13	4	3 513	2	1	7,820	15	5
£	14.682	8	1	12 249	2	5	26,931	10	6

Cr.

	Eastern Branch £	s	d.	Western Branch £	s.	d	Total £	s	d.
By Sales (Net . . .	27,859	12	10	22,974	19	8	50,834	12	6
,, Stock, 31st December	5,812	18	11	4,956	11	6	10,769	10	5
£	33,672	11	9	27,931	11	2	61,604	2	11
By Balance (Gross Profit) b/d	14,154	13	4	11,830	4	11	25,984	18	3
,, Discounts Received .	527	14	9	418	17	6	946	12	3
£	14,682	8	1	12,249	2	5	26,931	10	6

GENERAL PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr*

Dr.

	£	s.	d	£	s	d.
To Rent, Rates, Taxes, etc. .	245	16	8			
,, Salaries	985	14	8			
,, Directors' Fees . . .	560	–	–			
,, Debenture Interest . .	475	–	–			
,, Depreciation . . .	23	18	4			
				2,290	9	8
,, Balance (Net Profit) . .				5,530	5	9
			£	7,820	15	5

Cr.

	£	s.	d.	£	s.	d.
By Branch Profits—						
Eastern Branch	4,307	13	4			
Western Branch	3,513	2	1			
				7,820	15	5
			£	7,820	15	5

BALANCE SHEET

AS AT 31ST DECEMBER, 19..

CAPITAL AND LIABILITIES	£	s.	d.	£	s	d	PROPERTY AND ASSETS	£	s.	d.	£	s.	d
Share Capital. 25,000 Shares							Horses, Harness, Vehicles,						
of £1 each fully paid .				25,000	–	–	etc., *less* Depreciation .				3,543	19	–
5% Debentures . . .				9,500	–	–	Furniture, Fixtures, and						
Reserve Account . .				7,500	–	–	Fittings, *less* Depreciation				733	10	8
Sundry Creditors .				8,349	19	8	Stock-in-trade . . .				10,769	10	5
Bills Payable . . .				2,694	16	8	Sundry Debtors . .	32,231	4	10			
Profit and Loss Account—							*Less* Bad Debts Reserve .	1,611	11	3			
Net Profit for Year .	5,530	5	9								30,619	13	7
Less Interim Dividend, 8%	2,000	–	–				Cash in hand . . .	162	8	6			
				3,530	5	9	Cash at Bank . . .	10,745	19	11			
											10,908	8	5
			£	56,575	2	1				£	56,575	2	1

Books Kept by the Branches

Branches which are semi-independent trading concerns usually do their own book-keeping, and, at the end of the financial period, forward to the head office a copy of their Trial Balance, so that the trading results can be incorporated into the books of the head establishment.

As the head office finances the branch and also supplies it with its principal goods, the branch is continually in debt to the head office. The position is somewhat similar to that of ordinary debtor and creditor, as is evidenced in the head office books, by the *debit* balance of the Branch Account, and in the Branch books by the *credit* balance of the Head Office Account. The latter account, however, takes the place, in the branch books, of the Capital Account in an ordinary trader's books. The excess of the branch assets over the branch liabilities, instead of being shown as Capital, appears, in the books of the branch, as a debt due to the head office.

The Head Office Account is sometimes styled the "Head Office Adjustment Account," and also the "Head Office Current Account"; and, in such cases, the Branch Account is correspondingly entitled the "Branch Adjustment Account," and the "Branch Current Account."

To reduce the amount of its indebtedness, the branch remits, at intervals, a round sum of money to the head office. This money is sometimes credited direct to the Branch Account; but if remittances are for moderate sums, and are of frequent occurrence, they are then credited to a special "Branch Remittance Account."

In such cases, a separate Remittance Account has the great advantage of keeping unnecessary detail out of the Branch Account, thus making it very much clearer. At balancing time, however, the total of the Remittance Account must be transferred to the credit of the Branch Account, so as to show the correct amount of the branch's indebtedness to the head office at that date. In the branch books, the Remittance Account is styled "Remittances to Head Office," and is closed, at balancing time, by transfer to the debit of the Head Office Account.

Adjustment of Items in Transit

It frequently happens that the balances of the Current Accounts and of the Remittance Accounts, as shown by the Trial Balances of the head office and branch respectively, do not correspond. This arises through the head office forwarding goods to the branch on the last day of the financial period, and therefore debiting the Branch Account. The branch, not receiving the goods till a later date, has consequently not credited the Head Office Account with the amount. It also occurs when the branch forwards a remittance to the head office on the last day of the trading period, and therefore debits the Remittance Account. The head office, however, not having received the remittance until the first day of the new period,

has consequently not credited the Remittance Account.

In such cases, the balances of the Current and Remittance Accounts must be made to agree, before proceeding with the final entries. The value of the goods in question must be deducted from the Branch Account in the Head Office Trial Balance, and put to Goods in Transit Account. Likewise, the amount of the last remittance must be deducted from the Remittance Account in the Branch Trial Balance, and put to a Remittance in Transit Account.

The following example will illustrate this point—

HEAD OFFICE TRIAL BALANCE

31st December, 19..	Dr. £	s.	d.	Cr. £	s.	d.
Sundry Assets	12,985	12	8			
Capital				12,500	–	–
Sundry Creditors				3,706	19	2
Branch Current Account (£250 of this is for Goods sent on 31st December)	4,306	6	6			
Remittances from Branch				1,085	–	–
	£17,291	19	2	£17,291	19	2

BRANCH TRIAL BALANCE

31st December, 19..	Dr. £	s.	d	Cr. £	s.	d.
Sundry Assets	3,287	19	10			
Sundry Creditors				416	13	4
Head Office Current Account				4,056	6	6
Remittances to Head Office (£100 of this is for a Remittance made on 31st December)	1,185	–	–			
	£4,472	19	10	£4,472	19	10

The result of the adjustments will be as follows—

HEAD OFFICE TRIAL BALANCE

31st December, 19..	Dr. £	s.	d	Cr. £	s.	d
Sundry Assets	12,985	12	8			
Capital Account				12,500	–	–
Sundry Creditors				3,706	19	2
Branch Current Account	4,056	6	6			
Goods in Transit to Branch	250	–	–			
Remittances from Branch				1,085	–	–
	£17,291	19	2	£17,291	19	2

BRANCH TRIAL BALANCE

31ST DECEMBER, 19..

	Dr £	s.	d.	Cr £	s.	d
Sundry Assets	3,287	19	10			
Sundry Creditors				416	13	4
Head Office Current Account				4,056	6	6
Remittances to Head Office	1,085	–	–			
Remittances in Transit to Head Office	100	–	–			
	£4,472	19	10	£4,472	19	10

Eliminating the Current Accounts and the Remittance Accounts, which are merely contras, the Balance Sheet of the whole business would appear thus—

BALANCE SHEET

AS AT 31ST DECEMBER, 19.

LIABILITIES	£	s.	d	ASSETS	£	s.	d
Capital Account	12,500	–	–	Sundry Assets	16,273	12	6
Sundry Creditors	4,123	12	6	Goods in Transit to Branch	250	–	–
				Remittance in Transit from Branch	100	–	–
£	16,623	12	6	£	16,623	12	6

Worked Example of Branch with Own Books

The foregoing explanation relating to a branch which keeps its own books is demonstrated below.

The following is the Trial Balance of the branch books. It is desired to incorporate the figures in the head office books, and to show the final accounts in the Head Office Ledger and also in the Branch Ledger—

BRANCH TRIAL BALANCE

31ST DECEMBER, 19..

	Dr £	s	d	Cr £	s.	d.
Head Office Account, 1st January				3,957	13	7
Remittances to Head Office	2,650	–	–			
Cash in hand	168	14	5			
Sundry Debtors	806	16	2			
Stock, 1st January	616	15	6			
Purchases from Head Office	2,569	17	4			
Carriage Inwards	76	18	2			
Sales				3,786	18	4
Horses and Carts	238	10	6			
Furniture and Fixtures	67	16	8			
Sundry Creditors				126	17	4
Discounts Received				16	12	8
Wages and Salaries	419	16	3			
Rent, Rates, and Taxes	88	17	2			
Discounts Allowed	74	13	8			
Sundry Expenses	50	13	2			
Bad Debts	28	16	4			
Depreciation	29	16	7			
Stock, 31st December, £786 15s. 6d	£7,888	1	11	£7,888	1	11

In order that the Trading and Profit and Loss Account may be worked out it will be necessary to make Journal entries, which will be as follows—

HEAD OFFICE JOURNAL

				Dr. £	s	d	Cr. £	s	d.
19 . Dec 31	Remittances from Branch Account			2,650	–	–			
	To Branch Account						2,650	–	–
	Transfer of total of Remittance Account to Branch Account								
31	Branch Trading Account			3,263	11	–			
	To Branch Account						3,263	11	–
	Stock, 1st January	£616 15	6						
	Purchases	2,569 17	4						
	Carriage Inwards	76 18	2						
31	Branch Account			4,573	13	10			
	To Branch Trading Account						4,573	13	10
	Sales	£3,786 18	4						
	Stock, 31st December	786 15	6						
31	Branch Trading Account			1,310	2	10			
	To Branch Profit and Loss Account						1,310	2	10
	Gross Profit transferred								
31	Branch Account			16	12	8			
	To Branch Profit and Loss Account						16	12	8
	Discounts Received transferred.								
31	Branch Profit and Loss Account			692	13	2			
	To Branch Account						692	13	2
	For Balances transferred—								
	Wages and Salaries	£419 16	3						
	Rent, Rates, and Taxes	88 17	2						
	Discounts Allowed	74 13	8						
	Sundry Expenses	50 13	2						
	Bad Debts	28 16	4						
	Depreciation	29 16	7						
31	Branch Profit and Loss Account			634	2	4			
	To Head Office Profit and Loss Account						634	2	4
	Net Profit transferred.								

The accounts in the Head Office Ledger will be as follows—

HEAD OFFICE LEDGER

REMITTANCES FROM BRANCH

Dr.		£	s	d.	Cr.		£	s	d
19.. Dec. 31	To Branch Account	2,650	–	–	19.. Jan.–Dec	By Cash	2,650	–	–

Dr BRANCH ACCOUNT *Cr.*

		£	s.	d			£	s.	d
19.. Jan. 1	To Balance	3,957	13	7	19.. Dec 31	By Remittances from Branch	2,650	–	–
Dec. 31	,, Branch Trading Account .	4,573	13	10	31	,, Branch Trading Account .	3,263	11	–
31	,, Branch Profit and Loss Account . . .	16	12	8	31	,, Branch Profit and Loss Account .	692	13	2
					31	,, Balance c/d	1,941	15	11
	£	8,548	–	1		£	8,548	–	1
19.. Jan. 1	To Balance b/d . . .	1,941	15	11					

Dr BRANCH TRADING ACCOUNT *Cr*

		£	s	d.			£	s.	d
19.. Dec. 31	To Branch Account—				19.. Dec 31	By Branch Account—			
	Stock, 1st January .	616	15	6		Sales	3,786	18	4
	Purchases . . .	2,569	17	4		Stock, 31st December .	786	15	6
	Carriage Inwards . .	76	18	2					
31	,, Branch Profit and Loss Account (Gross Profit) .	1,310	2	10					
	£	4,573	13	10		£	4,573	13	10

Dr. BRANCH PROFIT AND LOSS ACCOUNT *Cr.*

		£	s	d.			£	s.	d.
19.. Dec. 31	To Branch Account—				19.. Dec. 31	By Branch Trading Account (Gross Profit) . .	1,310	2	10
	Wages and Salaries .	419	16	3	31	,, Branch Account: Discounts Received . .	16	12	8
	Rent, Rates, and Taxes .	88	17	2					
	Discounts Allowed .	74	13	8					
	Sundry Expenses . .	50	13	2					
	Bad Debts . . .	28	16	4					
	Depreciation. . . .	29	16	7					
31	,, Head Office Profit and Loss Account (Net Profit) .	634	2	4					
	£	1,326	15	6		£	1,326	15	6

The first two of the foregoing accounts will also appear in the Branch Ledger, but with the items on opposite sides and the corresponding alteration in the titles.

BRANCH LEDGER

Dr. REMITTANCES TO HEAD OFFICE *Cr.*

		£	s	d.			£	s	d.
19.. Jan.–Dec.	To Cash	2,650	–	–	19.. Dec 31	By Head Office Account	2,650	–	–

Dr. HEAD OFFICE ACCOUNT *Cr.*

		£	s	d.			£	s	d.
19.. Dec. 31	To Remittances to Head Office Account	2,650	–	–	19.. Jan 1	By Balance	3,957	13	7
31	,, Balance c/d	1,941	15	11	Dec 31	,, Profit and Loss Account (Net Profit)	634	2	4
	£	4,591	15	11		£	4,591	15	11
					19.. Jan. 1	By Balance b/d	1,941	15	11

The Branch Ledger will also include the Trading and Profit and Loss Account. A separate Balance Sheet will also be compiled.

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

	£	s.	d		£	s.	d.
To Stock, 1st January	616	15	6	By Sales	3,786	18	4
,, Purchases	2,569	17	4	,, Stock, 31st December	786	15	6
,, Carriage Inwards	76	18	2				
,, Balance (Gross Profit) c/d	1,310	2	10				
	£4,573	13	10		£4,573	13	10
To Wages and Salaries	419	16	3	By Balance (Gross Profit) b/d	1,310	2	10
,, Rent, Rates, and Taxes	88	17	2	,, Discounts Received	16	12	8
,, Discounts Allowed	74	13	8				
,, Sundry Expenses	50	13	2				
,, Bad Debts	28	16	4				
,, Depreciation	29	16	7				
,, Head Office Account (Net Profit)	634	2	4				
	£1,326	15	6		£1,326	15	6

BALANCE SHEET

AS AT 31ST DECEMBER, 19..

Liabilities		£	s.	d.	Assets	£	s	d.
Sundry Creditors .		126	17	4	Cash	168	14	5
Head Office Account—					Sundry Debtors . .	806	16	2
Balance, 1st January	£3,957 13 7				Stock	786	15	6
Add Profit .	634 2 4				Horses and Carts, *less* Depreciation .	238	10	6
	4,591 15 11				Furniture and Fixtures, *less* Depreciation	67	16	8
Less Remittances	2,650 – –							
		1,941	15	11				
		£2,068	13	3		£2,068	13	3

The foregoing method applies both to retail and wholesale branches. In the latter, however, the turnover might run into tens and hundreds of thousands, with the other figures correspondingly increased.

FOREIGN EXCHANGE

The term "Foreign Exchange" is used to denote the means whereby nations settle the mutual indebtedness that arises out of their trading transactions with one another. Foreign debts, however, are usually paid off by means of bills of exchange; and hence, in a narrow sense, the term is used to designate the principles which govern the creation, negotiation, and payment of foreign bills of exchange.

Rate of Exchange

The rate of exchange is the rate at which the currency of one country can be converted into the currency of another. It consists of two terms, one fixed, and the other fluctuating. For instance, in the exchange between London and Paris, the fixed term is the pound sterling, and the fluctuating term is the varying number of francs and centimes given for the pound sterling. In the exchange between London and India, the fixed term is the Indian rupee, and the fluctuating term is the varying amount of British pence given for the rupee. When rates of exchange are quoted, only the fluctuating terms are, as a rule, mentioned, the fixed terms being understood.

Unit of Currency

Each country has, of course, some standard unit of currency for the purpose of making financial calculations. In this country the unit is the *pound sterling*; in France, it is the *franc*; in the United States, the *dollar*; in Italy, the *lira*; in India, the *rupee*; in Japan, the *yen*, and so on.

Mint Par of Exchange

In those countries that have a gold standard, the standard gold coins are mixtures of pure gold and alloy, as pure gold itself is too soft for coinage purposes. And, if all these countries mixed the gold and alloy in the same proportions, there would be a uniform gold coin. British gold, however, is $\frac{11}{12}$ths fine, that is, 11 parts pure gold to 1 part of alloy; but foreign gold is mostly $\frac{9}{10}$ths fine, that is, nine parts pure gold to 1 part of alloy. Hence, the standard gold coins of the various countries differ in weight and fineness.

The relative values of the gold coins, however, can be established by calculating, from the coinage laws of each country, the exact quantity of pure gold contained in each coin. By this means it is found that the British sovereign contains the same quantity of pure gold as the equivalent of 4·87 dollars in American gold, and so on. This exact equivalent is called the "mint par of exchange"; and this cannot change unless the coinage laws are changed. It is not possible to establish a mint par of exchange with a country that has only a silver standard, owing to the fluctuating price of silver.

The withdrawal of gold from public service during the war led to a very difficult condition in exchanges, as it practically made the American gold dollar the only international standard

of value for the whole world. Though the British paper sovereign gradually reassumed its old position in this respect, its real value for a long time was its worth in American currency.

However, one after another of the nations have " pegged down " to a gold standard again, Britain at great sacrifice regaining her par position and other great nations fixing the value of their new gold coinage in widely varying ratios with the old.

Germany, issuing gold at the amazing ratio of one new mark for a billion old ones (a number expressed by thirteen places of figures) and France pegging down at about 124 francs to the pound, practically paid compositions in their internal national debts of the thousand millionth part of a farthing and 4s. in the £ respectively.

Yet once again we are upon a basis of gold and the demands of each country for the good of others can be regulated from day to day with more accuracy than was the case when speculations in possible rises and falls of currency had its embarrassing effect upon traders.

Gold is again the medium of exchange between countries, and as it is inconvenient for the actual precious metal to be passed from land to land, Bills of Exchange ultimately payable in gold (or in what can somewhere be changed into gold) are the recognized currency of international commerce.

Varying Rates of Exchange

If payments were actually made in gold, the rate of exchange would be the mint par of exchange, plus or less the cost of transporting the gold. The cost of transport is added if a country quotes the rate in its own currency, and is deducted if a country quotes the rate in the currency of a foreign country. A more convenient, and also a cheaper, method of settlement is to make use of bills of exchange.

Should the total debts of two countries not be equal, then the balance must be settled by the import or export of gold. But this in itself is only a temporary settlement that suits the convenience of banking and commerce.

Gold itself is a commodity, and the amount in a country at any time is the amount which the statutory trading and banking requirements of the time dictate.

The mint par or *nominal* rate of exchange is seldom the commercial or *actual* rate of exchange, which varies from day to day. The latter is influenced by many causes, principally by the law of supply and demand, and may rise higher, or fall lower, than the mint par of exchange.

The rate of exchange is said to be *favourable* to us when it is higher than the mint par; it is said to be *against* us when it is lower than the mint par. High rates are *against* the country in whose currency they are quoted, since the purchasers of bills will have to give *more* than the mint par value of money for the foreign equivalent. Low rates are *favourable* to the country in whose currency they are quoted, since the purchasers of bills will have to give *less* than the mint par value of money for the foreign equivalent. There are limits, however, to the rise and fall of the rate of exchange. Theoretically, these limits are determined by the " gold points," that is, the points at which it becomes cheaper to send actual gold than to buy a bill of exchange.

But, as already explained above, the gold points are only operative upon a small floating balance of the gold in a country. No land can perpetually pay differences in gold, although in certain extreme cases as during the great war, it may temporarily mortgage the whole or nearly the whole of its reserves and bridge the difficulty by means of special contrivances and manipulations.

Two Ways of Quoting the Rate of Exchange

Just as there are markets for the different commodities, so there is also a market for foreign bills. This is not centred in any one particular place, but may be said to exist in the neighbourhood of the Royal Exchange. The head offices of the various banks and of the bill brokers are situated in this quarter, and the prices of bills on the various financial centres are negotiated over the telephone.

There are two ways in which the rate of exchange between countries is quoted. It may state

1. The foreign equivalent of the English pound sterling, as, in the case of the United States, 4·88 dollars to the £; or it may state

2. The amount of English pence equivalent to the foreign monetary unit, as, in the case of Brazil, 27 pence per milreis.

In some cases, there are quotations both ways even for the same two countries. Thus, the United States quotes London in dollars and cents to the English £; but London quotes the

United States in pence to the American dollar. London quotes Spain in pence to the peso (1 peso = 5 pesetas); but Spain quotes London in pesetas, and centimes to the £. In the case of India, China, Japan, and Argentina, London always quotes pence to the unit of currency of the foreign country.

Conversion of Currency into Sterling

The calculation required will be either a multiplication or a division sum, according to the way in which the rate is quoted.

1. *When the Rate of Exchange states the equivalent of the foreign currency to the English pound sterling.* Divide the currency amount by the rate, after clearing any decimals in the divisor; and the result will be in pounds and decimals of a £; the latter can be converted at sight into shillings and pence.

(*a*) Find the value in sterling of \$10,562 at 4·88 dollars to the £.

$$£\frac{10562}{4{\cdot}88} = £\frac{1056200}{488} = £2{,}164{\cdot}344$$
$$= £2{,}164\ 6s.\ 10\tfrac{1}{2}d.$$

(*b*) Exchange into the sterling equivalent \$8,269·56 at \$5·04 to the £.

$$£\frac{8269{\cdot}56}{5{\cdot}04} = £\frac{826956}{504} = £1{,}640{\cdot}786$$
$$= £1{,}640\ 15s.\ 8\tfrac{1}{2}d$$

2. *When the Rate of Exchange states the amount of English pence as the equivalent of the foreign monetary unit.* Multiply the currency amount by the rate and divide by 240. The result will be in pounds and decimals of a pound; the latter can be converted at sight into shillings and pence.

(*a*) Find the sterling equivalent of 46,927 milreis at 27d. per milreis.

$$£\frac{46927 \times 27}{240} = £5279{\cdot}2875 = £5{,}279\ 5s\ 9d.$$

(*b*) Exchange into sterling 2,695 rupees 8 annas at 1s. 6d. a rupee.

$$£\frac{2695 \times 18}{240} = £202{\cdot}125 = £202\ \ 2\ \ 6$$

16 annas = 1 rupee	= 18d.		
1 anna	= $1\frac{1}{8}$d.		
8 annas	= 9d.		9
		£202 3	3

Tables for Converting Sterling into Currency

Small decimal tables of nine multiples can be very easily constructed, by means of which the conversion of sterling into currency may be simply and rapidly performed. It is necessary to start with some given rate for the £, and then to find the decimal base for the shillings and pence respectively.

By way of illustration, let us suppose that it is desired to construct a table for converting sterling into francs and centimes at the current rate of 124·25 francs to the £. As £1 is the equivalent of 124·25 francs, this amount will form the pounds basis. Thus, £2 will equal 248·5 francs; and so on. Again, 124·25 francs ÷ 20 (£1 = 20s.) gives 6·2125 francs, which is the equivalent of 1s., and therefore forms the shillings basis. Thus, 2s. will equal 12·425 francs; and so on. Further, 6·2125 francs ÷ 12 (1s. = 12d.) gives ·5177, which is the equivalent of 1d., and therefore forms the pence basis. Thus, 2d. will equal 1·0354 francs; and so on.

To multiply by 10, move the decimal point one place to the right; by 100, two places; by 1,000, three places; by 10,000, four places; and so on. To multiply by ·1, move the decimal point one place to the left; by ·01, two places, by ·001 three places; and so on.

CONVERSION TABLE

Sterling into FRANCS and CENTIMES at the Rate of 124·25 to the £

No.	Pounds	Shillings	Pence
1	124·25 francs	6·2125 francs	·5177 francs
2	248·50 ,,	12·4250 ,,	1·0354 ,,
3	372·75 .	18·6375 ,,	1·5531 ,,
4	497·00 ,,	24·8500 ,,	2·0708 ,,
5	621·25 ,,	31·0625 ,,	2·5885 ,,
6	745·50 ,,	37·2750 ,,	3·1062 ,,
7	869·75 ,,	43·4875 ,,	3·6239 ,,
8	994·00 ,,	49·7000 ,,	4·1416 ,,
9	1,118·25 ,,	55·9125 ,,	4·6593 ,,

To illustrate the use of the Table, we will suppose that it is desired to convert £225 4s. 9d. into francs and centimes at the rate of 124·25, to the £—

£200 =	24,850·0000	francs
£20 =	2,485·0000	,,
£5 =	621·2500	,,
4s. =	24·8500	,,
9d. =	4·6593	,,
	27,985·7593	francs

The result is 27,985·76 francs; which can be proved by converting it back into sterling at the same rate.

Again, in constructing a Table for rupees we have, at 1s. 6d. per rupee, the following figures—

£1 sterling = 13·33$\dot{3}$ rupees = pound basis,
1s. = £$\frac{1}{20}$ = ·666$\dot{6}$,, = shillings basis;
1d. = $\frac{1}{12}$s. = ·055$\dot{5}$,, = pence basis,

and, hence, the following Table—

CONVERSION TABLE

Sterling into Rupees and Annas at the Rate of 1s 6d per Rupee

No.	Pounds	Shillings	Pence
	Rupees	Rupees	Rupees
1	13·333$\dot{3}$	·6666$\dot{6}$	·0555$\dot{5}$
2	26·666$\dot{6}$	1·3333$\dot{3}$	·1111$\dot{1}$
3	39·999$\dot{9}$	1·9999$\dot{9}$	·1666$\dot{6}$
4	53·333$\dot{3}$	2·6666$\dot{6}$	·2222$\dot{2}$
5	66·666$\dot{6}$	3·3333$\dot{3}$	·2777$\dot{7}$
6	79·999$\dot{9}$	3·9999$\dot{9}$	·3333$\dot{3}$
7	93·333$\dot{3}$	4·6666$\dot{6}$	·3888$\dot{8}$
8	106·666$\dot{6}$	5·3333$\dot{3}$	·4444$\dot{4}$
9	119·999$\dot{9}$	5·9999$\dot{9}$	·4999$\dot{9}$

In order to illustrate the use of the above Table, let us suppose that it is desired to convert £516 12s. 9d. into rupees and annas at the rate of 1s. 6d. per rupee. The procedure will be as under—

£500	=	6666·66666 rupees
£10	=	133·33333 ,,
£6	=	79·99999 ,,
10s	=	6·66666 ,,
2s.	=	1·33333 ,,
9d	=	·49999 ,,
		6888·49996 rupees
		16
		7·99936 annas

The result is, therefore, 6,888 rupees 8 annas; and this can be verified by converting it back into sterling.

Tables for Converting Currency into Sterling

In order that the reverse operation of converting currency into sterling may be simply and rapidly performed, similar small decimal tables of nine multiples can be easily constructed.

In the case of francs, the base will be obtained by deduction from the figures for the £ sterling. Thus, at current rate—

124·25 francs = £1;

$$1 \text{ franc} = £\frac{1}{124·25} = £0·00804828$$

Hence, we get the following Table—

CONVERSION TABLE

Francs and Centimes into Sterling at the Rate of 124·25 francs to the £

Francs	£
1	00804828
2	·01609656
3	·02414484
4	·03219312
5	·04024140
6	·04828968
7	·05633796
8	·06438624
9	·07243452

To illustrate the use of the above Table, let us convert 7,846 francs 57 centimes into sterling at the rate of 124·25 francs to the £. The working will be as under—

7,000 francs	=	£56·33796
800 ,,	=	6·438624
40 ,,	=	·3219312
6 ,,	=	·04828968
·5 ,,	=	·00402414
·07 ,,	=	·00056337
		£63·15139239

£63·151 = £63 3s.

Again, in constructing Tables for milreis, we must start from the basis of the currency units and their equivalents in pence, thus—

$$1 \text{ milreis} = 27\text{d.} = £\frac{27}{240} = £0·1125;$$

and, hence, the following Table—

CONVERSION TABLE

Milreis into Sterling at the Rate of 27d. per Milreis

Milreis	£
1	·1125
2	·2250
3	·3375
4	·4500
5	·5625
6	·6750
7	·7875
8	·9000
9	1·0125

To illustrate the use of the above Table, let us convert 6,857 milreis into sterling at the rate of 2s. 3d. per milreis. The working will be as under—

6,000 milreis	=	£675·0
800 ,,	=	90·0
50 ,,	=	5·625
7 ,,	=	·7875
		£771·4125

£771·413 = £771 8s 3d

FORMS OF FOREIGN REMITTANCES

Bank Draft, Commercial Bill

When a merchant wishes to send money abroad, several courses are open. If the debt is in Europe or America, Bills of Exchange may be bought; if the debt is in India, bills might be used, or an India Council draft; if the debt is elsewhere in Asia a telegraphic transfer might be used in place of bills. When bills are being bought two prices will be quoted in the rate of exchange. One price is for bank drafts, and the other is for ordinary or commercial bills. The bank draft is slightly dearer than the trade bill, because a banker has a higher financial standing than a commercial trader.

Telegraphic Transfer

A telegraphic transfer is a message sent by wire, directing the transfer of a stated sum of money from one person to another by means of a debit and a credit in their respective accounts. Agents abroad, and also foreign branch businesses, often cable to their headquarters to be placed in immediate possession of funds. This is done by headquarters instructing their bankers to cable to the bank's representatives abroad to place the necessary sum at the disposal of the agency or branch. A telegraphic transfer costs slightly more than a bill.

India Council Drafts

Council Drafts are bills, drawn by the British Government upon the India Government, payable in rupees at the treasuries in Calcutta, Bombay, or Madras. Large sums of money for interest and other charges have to be paid to the British Government by the India Government; and, when the state of the revenue permits, the India Government instructs the India Council in London to draw upon it in discharge of these liabilities.

The Secretary of State for India then invites, by means of advertisement, tenders for so many lacs of rupees. Merchants, bankers, and others, who have to make remittances to India, purchase these drafts, or arrange for telegraphic transfers, paying for them with gold. Large imports of tea, jute, and other goods are continually being paid for by such methods.

Sterling Bills on London

The foregoing methods are used when money has to be sent out of Great Britain to pay for our imports, but when foreign merchants wish to pay for our exports the converse is not entirely correct. Foreign merchants and others, who have bills to pay in this country, do not like us to draw on them in their own currency. Instead, they prefer to remit us sterling bills on London. Owing to this fact, England draws few bills, but accepts very many. Since London is the most important banking centre in the world, having a rate of exchange with every commercial country of any importance, sterling bills on London are readily negotiated abroad. The bills are purchased from the drawers by those countries which have payments to make in London; and, thus, we receive payment in our currency for goods sold to foreign parts.

TRANSACTIONS IN CURRENCY

Let us now apply the above theory to two instances of transactions with customers abroad

Generally speaking, the English merchant will invoice the goods to his foreign customer *in sterling*, so as to make sure of receiving the exact amount of the invoice. In such cases, the customer must provide sufficient of the foreign currency to produce the sterling amount; and any question of gain or loss on exchange affects only himself. There are, however, cases where the London merchant invoices goods in currency, in order to encourage and facilitate business.

1. F. Browne of London sold goods to G. Spling of Brooklyn, as follows—

15 cases Fancy Goods @ \$7·46 per case.
15 cases Special Vases @ \$10·53 per case.

The items were charged to Spling in currency, and converted, in Browne's books, at the rate of \$4·87. Spling remitted a draft, which was cashed at \$4·85, the rate ruling on the date of receipt. It is desired to show the entries in Browne's Day Book and Ledger.

FOREIGN SALES BOOK

Date	Particulars	Ledger Folio	Currency $	c	Sterling £	s	d
19..	G. Spling, Brooklyn—						
	15 Cases of Fancy Goods @ $7·46		111	90			
	15 Cases of Special Vases @ $10·53		157	95			
			269	85	55	8	3

FOREIGN SALES LEDGER

Dr. G SPLING, BROOKLYN *Cr.*

	$	c.	£	s	d.		$	c.	£	s.	d
To Goods	269	85	55	8	3	By Draft	269	85	55	12	9
Difference in Exchange (Gain)				4	6						
	269	85	£55	12	9		269	85	£55	12	9

2. G. Gosling, of London, bought of Frère et Cie, Paris, 120 dozens of Burgundy at 60 francs per dozen, and accepted a bill at 60 days for the amount. The entries were converted into sterling, in Gosling's books, at the current rate of 150 francs to the £. The bill was paid in due course by Gosling's bankers at the then current rate of 136·25 francs to the £. It is desired to record the entries in the subsidiary books and Ledger of Gosling.

FOREIGN PURCHASES BOOK

Date	Particulars	Ledger Folio	Currency Fc.	c.	Sterling £	s	d.
19..	Frère et Cie, Paris—						
	120 dozen of Burgundy @ 60 fcs per dozen (Rate 150·00) .		7,200	00	48	–	–

FOREIGN PURCHASES LEDGER

Dr. FRÈRE ET CIE, PARIS *Cr.*

	Fc.	c.	£	s.	d.		Fc.	c.	£	s.	d.
To Bill Payable	7,200	00	48	–	–	By Goods	7,200	00	48	–	–

GENERAL LEDGER

Dr. FOREIGN BILLS PAYABLE ACCOUNT *Cr.*

	Fc	c	£	s	d.		Fc.	c.	£	s.	d
To Cash	7,200	00	52	16	11	By Frère et Cie	7,200	00	48	–	–
						,, Difference in Exchange (Loss)			4	16	11
	7,200	00	£52	16	11		7,200	00	£52	16	11

The above rates are, of course, post-war rates.

FOREIGN BRANCHES

When the transactions become numerous, however, the question of a foreign branch would probably arise.

With foreign branches, the general book-keeping will be similar to that already outlined for home branches, and will vary in the same way, according as the detail is recorded in the head office books or only in the books of the branch. The special features are the conversion of the accounts from currency into sterling, and the difficulties arising owing to the fluctuations in the rate of exchange.

If the whole of the book-keeping is done by the head office, the Foreign Branch Ledger will be ruled with double money columns, one for currency and the other for sterling. The accounts will be written up from the periodical branch returns. If a fixed rate of exchange is employed, the items will be converted into sterling at once; if various rates are adopted, the conversion will take place at balancing time.

If the branch forwards to the head office a copy of its Trial Balance in currency, the head office will convert the items into sterling, either at the fixed rate or at the various rates, before entering them into its own books. The Remittance Account will already be in sterling, the remittances having been cashed at the rate ruling on the day of their receipt. The sterling value of the Head Office Account is also known, being the amount owing as per last balancing.

Fixed and Fluctuating Rates of Exchange

Where the rate of exchange is fairly stable, slight fluctuations are not taken into consideration, and the accounts, with the exception of the Remittance Account, are converted into sterling at one fixed rate of exchange, generally the mint par rate. This would apply to places such as New York and other American towns.

In other cases, where the rate of exchange is subject to violent fluctuations, a fixed rate of exchange would result in showing fictitious branch profits or losses. To avoid this, the accounts are converted at various rates, as under—

1. Remittances at actual rate of the day when made.
2. Revenue items at the average rate for the year, or other balancing period.
3. Fixed assets at the rate of the day when purchased; additions, however, when made during the year, are often converted at the average rate for the trading period.
4. Floating assets and liabilities at the current rate at the date of balancing the books and preparing the Balance Sheet.

Exchange Account

If, after conversion into sterling, the two columns of the Branch Trial Balance do not agree, the totals must be made to correspond, by writing in the balance on the lesser side, calling it " Difference in Exchange." A debit balance will denote a loss, and a credit balance will signify a profit; and as such will be carried to the Branch Profit and Loss Account in the usual way.

The foregoing principles are illustrated in the ensuing example.

Worked Example of Foreign Branch—1

The following is the Trial Balance of the Chicago Branch. It is desired to convert the items into sterling in order to facilitate incorporation in the head office books.

CHICAGO BRANCH TRIAL BALANCE

31st December, 19..

	Dr. $	c.	Cr. $	c.
Head Office Account, 1st January, 19..			34,640	73
Remittances to Head Office	15,600	00		
Stock, 1st January, 19..	5,260	55		
Fixtures and Fittings	2,661	26		
Purchases	18,926	32		
Sales			34,676	55
Debtors	10,656	28		
Bills Receivable	6,512	45		
Creditors			2,526	88
Discounts Allowed	678	35		
Discounts Received			376	90
Sundry Expenses	1,428	62		
Wages and Salaries	3,514	75		
Rent, Rates, Taxes, and Insurance	782	84		
Bad Debts	558	36		
Depreciation	140	78		
Cash at Bank	5,000	00		
Cash in hand	500	50		
	72,221	06	72,221	06
Stock, 31st December, 19.. = $5,560.				

Rate of exchange at date of last balancing	$4·89
Current rate of exchange, 31st December, 19..	$5·04
Average rate of exchange for year	$4·96
Rate of exchange when fixtures were purchased	$4·89

The Branch Account, and the Remittances from Branch Account, appear in the head office books, as £7,004 19s. 6d., and £3,185 13s. 8d., respectively.

CHICAGO BRANCH TRIAL BALANCE

31st December, 19..

Items	Rate of Conversion	Dr. £	s	d.	Cr. £	s.	d.
Head Office Account, 1st January, 19..					7,004	19	6
Remittances to Head Office		3,185	13	8			
Stock, 1st January, 19..	4·89	1,075	15	7			
Fixtures and Fittings	4·89	544	4	6			
Purchases	4·96	3,815	15	10			
Sales	4·96				6,991	4	10
Sundry Debtors	5·04	2,114	6	10			
Bills Receivable	5·04	1,292	3	1			
Sundry Creditors	5·04				501	7	4
Discounts Allowed	4·96	136	15	3			
Discounts Received	4·96				75	19	9
Sundry Expenses	4·96	288	–	7			
Wages and Salaries	4·96	708	12	5			
Rent, Rates, Taxes, and Insurance	4·96	157	16	8			
Bad Debts	4·96	112	11	6			
Depreciation	4·96	28	7	8			
Cash at Bank	5·04	992	1	3			
Cash in hand	5·04	99	6	2			
Difference in Exchange (Loss)		22	–	5			
		£14,573	11	5	£14,573	11	5
Stock, 31st December, at 5·04, = £1,103 3s. 6d.							

The above figures can now be incorporated in the head office books by means of Journal entries similar to those shown on page 391, the result being a net profit of £1,824 12s. 2d.

Where the foreign branch, instead of forwarding a copy of its Trial Balance, sends over an audited copy of its Trading and Profit and Loss Account and Balance Sheet, then only the net profit will require to be incorporated in the head office books.

This will be done by means of an entry as follows—

HEAD OFFICE JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19.. Dec. 31	Branch Current Account	1,824	12	2			
	To Profit and Loss Account				1,824	12	2
	Transfer of Profit on Chicago Branch.						

Worked Example of Foreign Branch—2

From the following Trial Balances, it is desired to prepare the Balance Sheet of the Brazil Trading Co., Ltd., as at 31st Dec., 19..—

LONDON TRIAL BALANCE

31ST DECEMBER, 19..

	Dr £	s.	d	Cr £	s.	d.
Rio de Janeiro Office Account (Remittances thereto at actual rates)	9,674	15	8			
Share Capital Account (20,000 Shares of £1 each, 10s. per share paid)				10,000	–	–
Cash at Bank	519	10	6			
Profit and Loss Account (Balance, 1st January)				194	6	2
	£10,194	6	2	£10,194	6	2

RIO DE JANEIRO TRIAL BALANCE

31ST DECEMBER, 19..

	Dr. Milreis	Cr. Milreis
London Office Account (£9,674 15s. 8d.)		142,614
Furniture and Fixtures	4,098	
Sundry Debtors	82,164	
Sundry Creditors		13,819
Stock-in-trade, 31st December	85,586	
Cash at Bank	10,178	
Profit and Loss Account (Net Profit for Year)		25,593
	182,026	182,026

Rate of exchange at date of last balancing	15½d. per milreis
Rate of exchange this 31st December (current rate)	16d. " "
Average rate of exchange for year	15½d. " "
Rate of exchange when fixtures were purchased	15¼d. " "

RIO DE JANEIRO TRIAL BALANCE

(After Conversion)

	Rate	Dr. £	s	d	Cr. £	s.	d
London Office Account					9,674	15	8
Furniture and Fixtures	15½	260	7	11			
Sundry Debtors	16	5,477	12	–			
Sundry Creditors	16				921	5	4
Stock-in-trade, 31st December	16	5,705	14	8			
Cash at Bank	16	678	10	8			
Profit and Loss Account (Net Profit for Year)	15½				1,652	17	7
Difference in Exchange (Loss)		126	13	4			
		£12,248	18	7	£12,248	18	7

BALANCE SHEET

As at 31st December, 19..

Capital and Liabilities				£	s.	d.	Property and Assets	£	s.	d
Share Capital—							Furniture and Fixtures	260	7	11
20,000 Shares of £1 each, 10s. per share paid				10,000	–	–	Stock-in-trade	5,705	14	8
Sundry Creditors				921	5	4	Sundry Debtors	5,477	12	–
Profit and Loss Account—							Cash at Bank	1,198	1	2
Balance, 1st January	£194	6	2							
Add Net Profit for Year	1,526	4	3							
				1,720	10	5				
			£	12,641	15	9	£	12,641	15	9

CHAPTER XXIX

COST ACCOUNTS

OWING to the fact that keen competition prevails in modern commerce, it is of the utmost importance to the business man to keep accurate and systematic records by means of which he can ascertain the actual cost of the goods he manufactures, or of the contracts he carries out. This can be done by keeping Cost Accounts, which are a system of recording in accounts the materials used and the labour employed in the manufacture of a certain commodity or on a particular piece of work.

Cost Accounts, although quite distinct from the financial records, are written up from the same data, and may, therefore, be kept in such a way that the financial books and the cost records will agree with each other. The financial books will show the *total* works' profit, while the cost books will show the result of *each* of the operations at the works.

Classes of Cost Accounts

The general principles of Cost Accounts are, of course, applicable to all businesses, but the details will obviously vary considerably, according to the nature of the business for which they are constructed. Cost Accounts are usually divided into the following classes—

1. Terminal or Contract Cost Accounts, for undertakings where definite contracts are entered into, and in which the cost is definite and terminating, as, for example, buildings and ships.
2. Operating or Working Cost Accounts, applicable to railways, tramways, gas works, water works, and similar undertakings.
3. Single or Output Cost Accounts. These are suitable for breweries, collieries, quarries, mines, and similar industries, in which there is a natural unit of cost, such as the barrel brewed, or the ton raised.
4. Multiple Cost Accounts, for undertakings in which a number of products are manufactured which have little or no connection with each other either in cost or selling price, as, for example, boots, hosiery, cycles, and furniture.
5. Process Cost Accounts, for businesses where there are a number of departments, and it is desired to know the cost of working each department.

The last two are sometimes grouped together under the title of Factory Cost Accounts.

Costing of Large Undertakings

In the case of businesses using Terminal Cost Accounts the costing department is naturally one of the most important in the whole business, for orders are usually obtained in the first place by submitting tenders for the work.

In working out the cost of building a great ship or of erecting some huge block of commercial offices, the responsible official is torn between two anxieties: (1) that his tender may be too high to get the contract; and (2) that it may be too low to allow an adequate profit.

It is said of a certain famous contractor that his agitation was greater when he learned that he had been successful in his tender than when he heard he had failed, for one unfortunate experience in which estimates had been checked and counter checked had once brought him within measurable distance of ruin.

In work that goes underground or that crosses running water the possibilities of error are widely variable.

Illustration of a Bridge

In Devonshire is an old road bridge that crosses an estuary on four or five piers. It was decided to build a railway bridge within a few feet of it. The cost of the work was easy to estimate for there were the original plans still in existence, of the road bridge erected fifty years before.

The iron piers had been built up from the rock which was but a few yards below the water level.

Four out of the five concrete piers were built in the usual modern way, steel tubes being forced down the earth and silt drawn out and concrete poured in.

But when the fifth set of tubes was forced down the unexpected happened—weeks passed into months, and instead of twenty feet, sixty, seventy, and more were registered before a solid base could be found.

Then it was discovered that by the sheerest accident the old road bridge had been built upon a narrow ledge, in a really deep river bed.

A part of the new railway bridge erected a few feet away shared in the good fortune on four-fifths of its foundation, but struck the real river bed in the last lap.

" We wish we had never seen the job," was the contractors' summary.

Illustration of a Tunnel

When one of the great railway lines was being built a rather difficult tunnel was made a special contract, and tenders were invited. The man who won the contract was scarcely envied by those who lost it, for tunnel making held much of mystery in those days.

But the contractor made his level, cut away the earth and dumped it to start his embankment, prepared his tools and blasts for the hard rock cutting before him, and began the work in earnest.

The stone he found was so soft that the men spoke of the work as cutting cheese.

Exposed to the air it rapidly hardened, and the contractor realized it had a value as a building stone.

Report has it that his tunnel almost paid expenses as a stone-quarry, and gave him the larger part of the contract price as profit.

These examples show the possibility of unexpected difficulties or unexpected advantages making confusion of the most elaborate costing method. The experience of most practical men is that the first of the two factors is more likely to weigh in than the second.

" And always allow a margin for luck . . . bad luck " is good advice.

Contractors, however, have all the experience of their forerunners and their fellows to go upon, and chances that once were cheerfully taken are now provided against by special clauses and other kinds of foresight.

The costing specialist is not a prophet or a reader of omens. He gets down to the bed-rock of facts. He relies on absolute data and unassailable mathematics.

Object of Cost Accounts

The principal object of Cost Accounts is to arrive at the exact prime and total cost of output or manufacture, but there are several indirect advantages to be derived from their construction, namely—

1. They afford a check on the stores and storekeeper, thus enabling waste to be prevented and leakages detected.
2. They afford also a check on the staff, as a record is kept of each man's labour, and thus incompetent or slack workers are exposed.
3. They enable the selling price to be fixed with much greater certainty in order to realize the desired profit.
4. They afford valuable data for tendering, estimating, and for comparison of different manufacturing periods or articles manufactured.
5. They enable a manufacturer to see whether a department is running at a profit or a loss, and if the latter, they enable him to locate the loss.
6. They afford a check on the general double-entry books, as the total cost should equal the total expenditure charged to Profit and Loss Account. Likewise, the total profit should agree with the aggregate profits of the various jobs, or manufactured articles, as shown by the Cost Accounts. Where, owing to *estimated* expenditure, absolute agreement is not possible, the estimated profits may be compared with the actual profits as shown by the Profit and Loss Accounts, and much valuable information thereby gained.

Before proceeding further it will be advisable to define a few of the terms used.

Flat Cost and Prime Cost

The term " cost " is capable of being divided into three subdivisions, namely, flat cost, prime cost, and total cost. Flat Cost includes the cost of the raw materials with all the charges thereon, such as carriage inwards, freight and dock dues; plus the cost of labour or productive wages. Prime Cost comprises Flat Cost, plus the direct expenses of production.

Works Oncost or Direct Expenses of Production

The direct expenses of production, or " works oncost " as it is also called, comprise the following—

1. Motive power, fuel, gas, water, electricity, lighting and heating of factory.
2. Rent, rates, taxes, and insurance of factory.
3. Patent fees, and royalties on manufacture.
4. Non-productive wages and salaries of storekeepers, firemen, enginemen, timekeepers, clerks, superintendents, and managers of factory.
5. Repairs, renewals, and depreciation of land and buildings, and of plant, machinery, and tools.

Total Cost

The total cost is made of the following items: (1) Labour, (2) Materials, comprising flat cost,

which with (3) Direct Expenses of production including motive power makes up the prime cost, and with (4) Indirect Expenses, namely, expenses of selling, distributing, and administration. More briefly, it consists of prime cost, plus indirect expenses.

Indirect Expenses

Indirect Expenses consist of the following—

1. Wages and salaries of assistants, and of counting-house staff and manager; directors' fees.
2. Rent, rates, taxes, and insurance of office, shop, warehouse, and showrooms.
3. Carriage outwards, freight outwards, packing materials, printing, stationery, advertising, etc.
4. Lighting, heating, and water rate of office, shop, warehouse, showrooms, etc.
5. Travellers' salaries, expenses, and commission.
6. Bad debts, discounts, and allowances.
7. Depreciation of furniture, fixtures, and fittings.
8. Interest on capital, loans, and debentures; bank interest, and other interest charges.

Selling Price

When the total cost has been ascertained, there remains only the adding of the percentage of profit required, in order to arrive at the actual selling price, which is made up as shown in the next column.

The term "Flat Cost" is used by some accountants to denote cost of material, labour, and direct expenses. In such cases, therefore, "Flat Cost" and "Prime Cost" have exactly the same meaning.

Materials Consumed and Charges Thereon	£
Productive Wages Paid	£
Flat Cost	£
Add Direct Expenses of Production .	£
Prime Cost	£
Add Indirect Expenses of Selling, etc.	£
Total Cost . . .	£
Add Percentage of Profit .	£
Selling Price . .	£

The "Indirect Expenses" are often termed the "Overhead," "Fixed," or "Establishment Charges." Further, the "Indirect Expenses" are often subdivided into "Works Oncost" and "Office Oncost."

Analysis of Materials

The information required for Cost Accounts is obtained principally by analysis and dissection. In the case of materials it is necessary to know what material has been used, and whether this has been taken from store or bought specially. In order to have a proper record, it is desirable that a Stores Received Book, a Stores Issued Book, and a Stores Ledger should be kept. The rulings of these three books are shown on pages 407 and 408. When goods are received, they are entered in the Stores Received Book, but the prices are filled in later from the invoices.

No materials are issued from store, except on the production of a properly signed Requisition Note, which states the name or number of the

S. R. NOTE

No . . .. ..
Date ... .
Job. No .. . . .
Particulars—

STORES REQUISITION NOTE

Number Date Job No . .

Quantity	Description	Rate	Folio

Signed.. Man's No. £

STORES RECEIVED BOOK

Date	Order No.	From Whom Received	Particulars of Stores	Stores Ledger Folio	Quantity				Rate	Amount	Remarks
					No	cwt	qr	lb			
19										£ s d	

STORES ISSUED BOOK

Date	No of Requisition Note	To Whom or for What Purpose Issued	Particulars of Stores	Stores Ledger Folio	Quantity				Rate	Amount	Remarks
					No	cwt	qr	lb			
19										£ s d	

PURCHASES ANALYSIS BOOK

Date	No of Invoice	Name	Bought Ledger Folio	Total	Goods and Materials Purchased Direct			Goods and Materials Purchased for Store		Plant	Sundries
					No of Job	Cost Ledger Folio	Amount	Stores Ledger Folio	Amount		
19				£ s d			£ s d		£ s d	£ s d	£ s d

STORES LEDGER

Name of Material or Article..

RECEIPTS										ISSUES														
Date	S R Book Folio	From Whom	Quantity				Rate	Amount			Date	S.I Book Folio	To Whom	Quantity				Rate	Amount					
			No.	cwt.	qr.	lb.		£	s	d				No.	cwt.	qr.	lb.		£	s.	d.			
19..											19..													

job for which the materials are wanted. A specimen is shown at the bottom of page 406.

The Requisition Notes are entered in the Stores Issued Book, and are then sent to the Costing Department, where they are summarized, and the totals posted to the respective jobs in the Cost Ledger. If more materials are requisitioned than are actually wanted, the quantity not used is returned to store, and a credit note given for it.

Materials purchased for a particular job, and ordered to be sent direct to that job in order to avoid the double carriage, are charged direct from the invoice to that job in the Cost Ledger. All other purchases are debited to store, and charged to their respective jobs by means of the Requisition Notes. A suitable form of Purchases Analysis Book is shown on page 407.

The Stores Ledger would be posted up daily from the Stores Received Book and the Stores Issued Book, for which see page 407.

The balance of the two sides should show the quantity of each article in stock at any time. This will facilitate and check the process of stocktaking. Due allowance will, of course, have to be made for shrinkage owing to breakage of bulk.

The totals of the various columns of the Purchases Analysis Book are posted in the ordinary way to the debit of their respective nominal accounts. The "Materials Purchased Direct Account" should agree with the amount charged in the Cost Accounts to customers, or to jobs which will eventually be charged to customers.

Direct Expenses will be debited in the Cost Ledger to the proper accounts, and the total will be debited to a Direct Expenses Account in the financial books from the Cash Book, Petty Cash Book, etc.

Analysis of Wages

The total wages paid for production must be allocated to the various jobs on which the workmen have been employed. To facilitate this, each workman is provided with a "time sheet" or "time card," on which he enters the time spent on each job.

Some variation exists with regard to these time sheets. In some firms a daily time sheet is issued; in others, a weekly one is distributed; while in other businesses, a separate time card is issued for each job.

Specimen forms and rulings are given on the next page.

TIME SHEET

Workman's Name. .... Date ....
Workman's No. .... Occupation ....

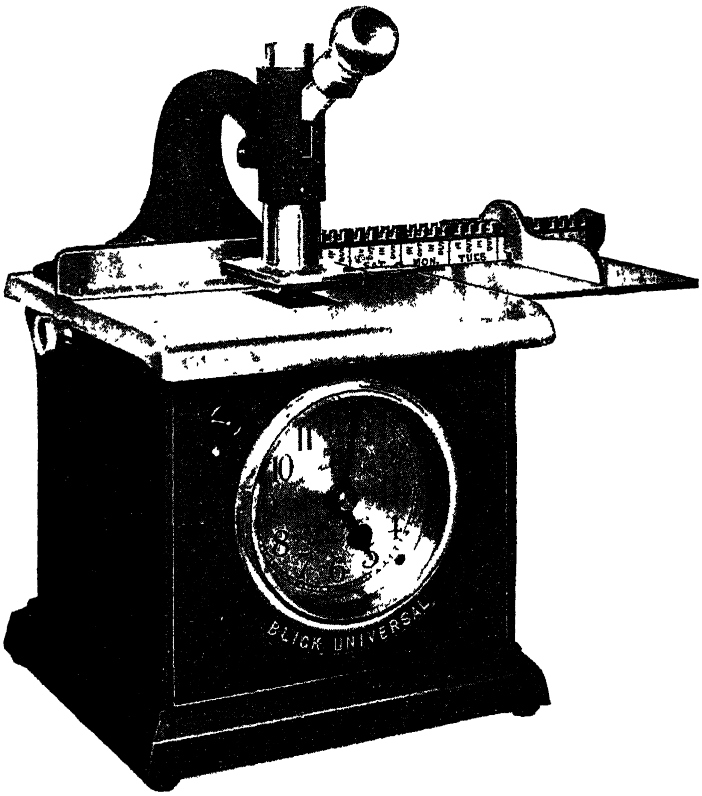
Job No.	Name of Customer	Particulars of Work Done	Hours		Rate	Amount		
			Time	Over-time				
						£	s.	d.

Foreman's Signature........................

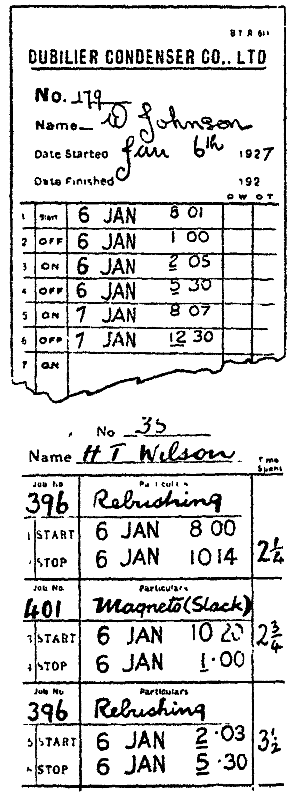
JOB CARD—PIECEWORK

Job No........ Man's No........ Name ....
Description of Work .... Reference........................
Date and Time Commenced........................ Foreman's Initials ....
Date and Time Finished .... Foreman's Initials ....

Week Ending	M.	T.	W.	T.	F.	S.	Total	Remarks



Blick Job-costing Clock



DUBILIER CONDENSER CO., LTD

No. 179
Name D Johnson
Date Started Jan 6th 1927
Date Finished 192

1	Start	6 JAN	8 01		
2	OFF	6 JAN	1 00		
3	ON	6 JAN	2 05		
4	OFF	6 JAN	5 30		
5	ON	7 JAN	8 07		
6	OFF	7 JAN	12 30		
7	ON				

No. 35
Name H T Wilson

Job No.		Particulars		Time Spent
396		Rebushing		
1	START	6 JAN	8 00	$2\frac{1}{4}$
2	STOP	6 JAN	10 14	
401		Magneto (Slack)		
3	START	6 JAN	10 20	$2\frac{3}{4}$
4	STOP	6 JAN	1·00	
396		Rebushing		
5	START	6 JAN	2·03	$3\frac{1}{2}$
6	STOP	6 JAN	5·30	

Specimen Cost Cards

Gledhill-Brook Cost Time Recorders

These time sheets and cards are used for writing up the Wages Book, or Wages Sheet, and are then sent to the Costing Department, where the amounts are dissected, summarized, and posted to their proper accounts in the Cost Ledger.

Mechanical Time Recorders

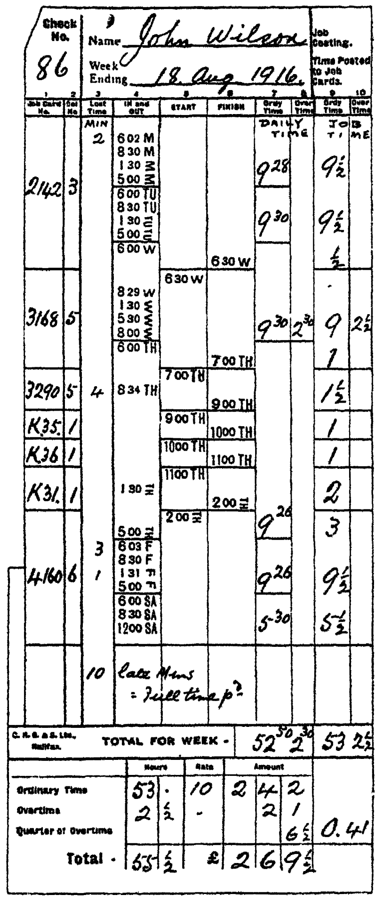
Mechanical Time Recorders are coming more and more into use for costing purposes They provide an indelibly-stamped time record, the accuracy of which cannot be disputed. And accurate time records are, of course, the very essence of good costing, since the largest item in all costs is usually the charge for labour.

Job-costing clocks are inexpensive yet absolutely efficient, and can be adapted to any business. The illustration on page 410 shows a "Blick-Universal" Job-costing clock, and also two specimen Cost Cards. The clock prints the dates of START and STOP, or the dates of ON and OFF, of a job, as well as the hour and definite minute. Each worker is independent of another in regard to registration position. The workman places his next blank registration space against the arrow pointer, and depresses the plunger each time he "Starts" or "Stops" a job. Any number of jobs can be registered daily or weekly on the same card. The figures underscored denote *p.m.* time, the others represent *a.m* time.

The Gledhill-Brook Time Recorder, previously explained in Chapter XVIII, is also used for costing purposes. In addition to the two Card Racks for OUT and IN time cards, two other Card Racks are used, one for JOBS AHEAD, and the other for JOBS IN PROGRESS. The IN and OUT times are recorded on the card, and also the time when jobs are changed The time on the job is cast at the side of the card, and the total number of hours entered in the Job Number column under the job number. Separate cards can be had for each operation, if desired.

As an illustration, the card in the next column shows that the workman started a job at 6 o'clock on Monday morning, clocked himself in after breakfast and dinner and left work at 5 o'clock. On Tuesday, he clocked himself in on arrival, after breakfast and dinner, and left work at 5 o'clock. On Wednesday he completed the job at 6.30 o'clock, when he clocked off the old job and clocked on the new one which was already waiting for him to start. He worked on this all day and in addition stopped for 2½ hours overtime, starting it again on Thursday when it was completed by 7 o'clock. On Thursday also it can be seen that five other jobs were started, and four were completed, the last one occupying all Friday and Saturday, and in addition being carried over to the following week.

SYSTEM C.



Check No. 86 — Name John Wilson — Week Ending 18 Aug 1916. — Job Costing. Time Posted to Job Cards.

1 Job Card No.	2 Sal No	3 Lost Time	4 In and Out	5 Start	6 Finish	7 Ordy Time	8 Over Time	9 Ordy Time	10 Over Time
		MIN				DAILY TIME		JOB TIME	
2142	3	2	6 02 M 8 30 M 1 30 M 5 00 M 6 00 TU 8 30 TU 1 30 TU 5 00 TU 6 00 W		6 30 W	9^28 9^30		9½ 9½ ½	
3168	5		8 29 W 1 30 W 5 30 W 8 00 W 6 00 TH	6 30 W	7 00 TH	9^30	2^30	9 1	2½
3290	5	4	8 34 TH	7 00 TH	9 00 TH			1½	
K35.	1			9 00 TH	10 00 TH			1	
K36	1			10 00 TH	11 00 TH			1	
K31.	1		1 30 TH	11 00 TH	2 00 TH			2	
4160	6	3 1	5 00 TH 6 03 F 8 30 F 1 31 F 5 00 F 6 00 SA 8 30 SA 12 00 SA	2 00 TH		9^26 9^26 5^30		3 9½ 5½	
		10	late Mins = full time p?						
C. R. S. & S. Ltd., Halifax.			TOTAL FOR WEEK -			52^50	2^30	53	2½

	Hours		Rate	Amount			
Ordinary Time	53	.	10	2	4	2	
Overtime	2	½	-		2	1	
Quarter of Overtime						6½	0.41
Total -	55	½	£	2	6	9½	

COMBINED TIME AND COST CARD

Advantages of the Job Time Card

The Job Card can be used to obtain whatever information is desired, by arranging the cards in the necessary way. Thus (1) one card can be allotted to each job, showing the various operations, and the time occupied by the different workers; or (2) one card may be used for each separate operation, showing the time occupied by the various workers; or (3) a card to each machine, showing the total hours used,

and the total output, in order to know definitely its capacity per hour.

The Costing Department can collect on to one Cost Sheet the time spent by all the workers on a job. This will give them the total wages cost of the job or the article manufactured. To this, they can add the indirect or overhead charges, or the percentage representing them, and thus arrive at the factory cost of the job or article produced.

The total time as per the time cards will act as a check on the total time as per the job cards. Any discrepancy will mean that the worker is being paid for time which has not been charged to a job, and will need investigation. Further, it can also be ascertained whether there has been any *unproductive* time of the workers or of the machines through waiting, stoppage, unpunctual attendance of piece workers, etc.

From the job cards, valuable information can also be collected as to the productive capacity of different machines; and, as a result, it may be found necessary to raise or lower the rates for certain classes of machine work.

Oncost

The term " oncost " is used in Cost Accounts to denote all expenditure which cannot be directly charged to the articles manufactured or the work done. The term " establishment charges " is often used with the same meaning. The correct allocation of general expenses, so that each of the articles produced shall bear its just share, is a matter of great difficulty, and consequently many attempts have been made for its solution. The following are the principal methods in use for calculating " oncost "—

1. Fixed Percentage Plan

In this method an attempt is made to calculate oncost by means of a percentage to cover all direct and indirect expenditure; this is obviously inequitable and unscientific. Work done with cheap tools is charged with the same proportion of expense as work which requires the use of expensive machinery. It thus leads to the cost of some articles being over-estimated and the cost of others under-estimated.

2. The " Hourly-Burden " Plan

By this method, the total expenses are ascertained and divided over the number of hours worked. This may suffice when there is only one uniform class of machinery employed, but cannot be accurate when there are different kinds and classes of machines in use.

3. The " Machine-Rate " Method

This is a charge of so much per hour for each machine or tool used, intended to cover wear and tear and interest on the capital outlay. This method has two weaknesses. Firstly, the great difficulty of correctly estimating depreciation renders this method far from accurate. Secondly, it is based on the assumption of the machine being constantly in use; hence, any slack or idle periods would obviously throw out the calculations.

4. Percentage on Wages

By this method fairly accurate results may be obtained, if the work and the conditions do not vary very much. One weakness of this method, however, is that it does not discriminate between cheap and expensive machinery. Another weakness is that it is very inequitable where wages form the smallest proportion of the total cost, as when boy and girl labour is employed on expensive machinery.

5. Varying Rates Method

A further attempt to solve the difficulty is made by charging varying rates for different items of expenditure.

By this method, items such as rent, rates, taxes, lighting, heating, etc., are apportioned according to the amount of floor space occupied by each shop. Gas, water, electricity can be measured by means of separate meters for each shop, and power can be charged at a rate per horse-power of each machine. Depreciation may be calculated on each machine separately, or by grouping the machinery into numerous classes, and fixing appropriate percentages for each class.

6. Charging Factory and General Oncost Separately

Another method is to charge factory oncost and general oncost separately. Factory Oncost includes all the expenses connected with production, specified previously under " Direct Expenses." General Oncost comprises all expenses connected with selling and distribution, previously enumerated under " Indirect Expenses."

With regard to the Factory Oncost, the question is: On what basis shall the calculation be made? Shall it be a percentage on (1) the

combined cost of materials consumed and productive labour, or (2) on the materials only, or (3) on labour only?

The last way is favoured by the great majority of accountants, as *wages* are a more constant factor than materials, the price of which fluctuates considerably. The wages will seldom vary, whether the material operated on be cheap or expensive. With certain kinds of material, however, there may be little outlay in productive wages, and hence a percentage on wages only would yield too small a proportion of establishment expenses. In other cases, where expensive material is used, a percentage on materials only would give an excessive proportion of establishment expenses. Again, where two articles of the same description are being manufactured, one with cheap and the other with expensive material, and involving virtually the same outlay in productive labour, a percentage on materials and labour combined would make the cost of the one out of all proportion to the cost of the other. Obviously, therefore, no hard and fast rule can be laid down; special circumstances, if any, must be taken into consideration.

Separate Costing for High Priced and Cheap Goods

Where a factory is using two widely different ranges of material for the manufacture of both high priced and cheap goods, it is sometimes practicable and advisable to separate the cost of the two, if only as an experiment and over a brief period of time.

A manufacturer with a business of this kind a few years ago went to considerable trouble to do this, and made his costing department get to work upon the actual results.

The result of the analysis showed him that in the department in which he used cheap material, for every sovereign spent in wages raw material to the value of £2 to £3 was used, whereas in the department in which more expensive goods were made the ratio was nearly £1 to £10.

He saw at once that an important new factor arose in the case. In making the cheap goods time was much more valuable compared with material than in making the dear goods. The policy of the firm had been to "speed up" production and speed involved occasional waste.

Figures showed him that he could afford the waste in the cheap material, but not in the dear.

The consequence was that in order to maintain the rate of speed he had to select a rather better type of worker at a higher rate of pay in the department where he made his better goods, so that whereas the ratio of one to ten on raw materials changed to one to eight the ratio of wages to finished goods actually shrank, and the profits in this department materially improved.

Ascertaining the Oncost Percentage

Generally speaking, however, a percentage on wages is found to be the most equitable method. In the first instance, the oncost will have to be an estimate based on the experience of past businesses; but the first year's Trading and Profit and Loss Account will supply valuable information for future guidance.

Suppose, for example, that the following is the first year's record—

Dr. TRADING ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Stock, 1st January	6,065	15	6	By Sales	23,276	6	4
,, Materials Purchased	10,378	4	10	,, Stock, 31st December	6,325	10	6
,, Productive Wages	4,710	16	6				
,, Balance (Gross Profit)	8,447	–	–				
£	29,601	16	10	£	29,601	16	10

Then from this Trading Account we can find the value of the materials consumed, thus—

	£	s.	d.
Stock at Start	6,065	15	6
Add Purchases	10,378	4	10
	16,444	–	4
Less Stock at Finish	6,325	10	6
Materials Consumed	£10,118	9	10

Suppose also the following is the first year's final record—

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

	Factory			Office			Total				Total		
	£	s.	d.	£	s.	d.	£	s.	d.		£	s	d.
To Salaries—										By Trading Account (Gross Profit) .	8,447	–	–
Management .	296	16	6	291	12	6	588	9	–				
Drawing Office	315	10	6				315	10	6				
Counting House				380	10	6	380	10	6				
,, Directors' Fees .				364	–	–	364	–	–				
,, Rent, Rates, etc	715	11	6	118	4	10	833	16	4				
,, Gas and Water .	98	10	2	28	9	6	126	19	8				
,, Carriage				120	12	8	120	12	8				
,, Travelling Expenses .				154	16	2	154	16	2				
,, Travellers' Salaries and Commission .				349	12	4	349	12	4				
,, Trade Expenses				270	7	6	270	7	6				
,, Bank Charges .				20	9	7	20	9	7				
,, Bad Debts				220	13	8	220	13	8				
,, Discounts .				172	6	4	172	6	4				
,, Repairs and Renewals of Plant, etc	336	4	10				336	4	10				
,, Depreciation	128	12	7	17	11	3	146	3	10				
	£1,891	6	1	£2,509	6	10	4,400	12	11				
,, Balance (Net Profit) .							4,046	7	1				
							£8,447	–	–		£8,447	–	–

With the help of the above we can now proceed to find the prime cost and the factory cost, thus—

	£	s.	d
Materials Consumed .	10,118	9	10
Productive Wages .	4,710	16	6
Prime Cost .	14,829	6	4
Add Factory Oncost .	1,891	6	1
Works or Factory Cost .	£16,720	12	5

By calculation we find that the Works or Factory Expenses (£1,891) are 40 per cent on the wages (£4,711), and that the Administration Expenses (£2,509) are 15 per cent on the Works or Factory Cost (£16,721).

Future estimates would, therefore, be based on these percentages, as shown at the top of the following page.

No. of Contract	Time	Wages	Total Expenditure	Establishment Charges		
				First Way	Second Way	Third Way
	Days	£	£	£	£	£
1	307	5,552	15,552	1,228	1,388	1,296
2	275	4,556	13,548	1,100	1,139	1,129
3	243	3,636	12,768	972	909	1,064
4	217	3,528	9,876	868	882	823
5	198	2,568	7,776	792	642	648
	1,240	£19,840	£59,520	£4,960	£4,960	£4,960

Materials Consumed	£
Productive Wages	£
Prime Cost . . .	£
Add Factory Oncost, 40% on Wages .	£
Factory Cost	£
Add General Oncost, 15% on Factory Cost	£
Total Cost	£

The selling price can now be fixed by adding to the total cost the percentage necessary to obtain the desired profit. It should be noted that profits are not calculated on *cost*, but on returns or *sales* Suppose the desired profit is 25 per cent on returns, then we must add $\frac{p}{100-p}\left(\frac{25}{100-25}\right)$, i.e. $\frac{25}{75}$ or $\frac{1}{3}$rd to the cost. The estimate would then be finished as follows—

Total Cost	£
Add 33⅓% to Return 25% Profit .	£
Selling Price	£

Terminal or Contract Cost Accounts

These are accounts relating to Contracts, in which the costing is definite and terminating, the object being to ascertain the profit or loss on each contract undertaken. The difficulty with these is the correct allocation of Establishment Expenses over the different contracts. The three principal methods of doing this are as follows—

1. In the proportion that the time worked on the contract bears to the total time worked on contracts for the period.
2. In the proportion that the wages paid on the contract bear to the total wages paid on contracts during the period.
3. In the proportion that the expenditure on the contract bears to the total expenditure on contracts for the period.

By way of example, let us suppose that it is desired to apportion Establishment Charges, among five contracts. Then, on the data given the allocation according to the three different methods would be as shown at the bottom of the previous page.

The apportionment fractions for the different methods are—

First . .	$\frac{307}{1{,}240}$	of £4,960, and so on
Second . .	$\frac{5{,}552}{19{,}840}$	of £4,960, and so on
Third . .	$\frac{15{,}552}{59{,}520}$	of £4,960, and so on

CONTRACTS COST LEDGER

Contract No. 157
Boys' School,
Frith Street,
Stampley.

Contract Price . . .	£
Total Cost . . .	£
Profit (or Loss) . . .	£

Period Ending	DEBITS						CREDITS			Prime Cost	Establishment Charges	Total Cost
	Stores	Special Material	Plant, Tools, etc	Wages	Direct Expenses	Total	Stores Returned	Plant Returned	Total			
	£ s d	£ s. d.	£ s. d	£ s. d	£ s d	£ s. d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d

The first method is considered by some accountants to be the most accurate and reliable, though the second method is the most usual.

When the Contract Accounts are not kept in the general double-entry books, a special Cost Ledger is kept, the ruling of which is as shown on page 415.

Operating or Working Cost Accounts

These are accounts relating to the cost of working tramways, railways, gas, water, and electric light companies, and similar undertakings. In order to have a basis of comparison for the different items of expenditure, a unit of cost is created; but, sometimes, two units are employed, so that any defects of the one basis may be remedied by the other. For instance, gas works adopt the ton of coal carbonized, and the thousand cubic feet of gas consumed; railways use the train-mile run, and the ton of merchandise carried. A more detailed list of these units of output is given on page 420.

The principle is also adopted by trading businesses generally, the unit of cost being £100 of sales. The various items in the Trading and Profit and Loss Account are expressed in terms of this particular unit, and thus afford a valuable basis for comparison of different periods. Examples of these Percentage Trading and Profit and Loss Accounts are given in the chapter on Manufacturing Accounts, page 352.

Single or Output Cost Accounts

These are accounts relating to collieries, quarries, mines, breweries, distilleries, and factories with an output of an easily classified nature. They are drawn up for the purpose of ascertaining the cost of a certain output of one class. In these businesses there is a *natural* unit of cost, such as the ton of mineral raised, and the barrel of beer brewed.

Short-period cost accounts are prepared, called "Cost Sheets," especially with collieries, iron foundries, cement and brick-making companies, the object being to compare the cost of production with the market price, with a view to restricting the output if market prices and conditions are unfavourable.

The following is a specimen Cost Sheet—

COLLIERY COST SHEET

Item of Expenditure	Week Ending 5th January, 19.. — 2,200 Tons					Week Ending 12th January, 19.. — 2,000 Tons				
	Cost per Ton		Amount			Cost per Ton		Amount		
	s.	d.	£	s.	d.	s.	d.	£	s.	d.
Wages—										
Colliers	11	8·38	1,286	15	6	12	5·97	1,249	15	9
Underground	5	1·81	566	12	5	5	5·50	545	16	6
Surface	2	8·70	299	14	7	2	11·63	296	17	8
Working Expenses—										
Timber	1	1·07	119	16	8	1	3·45	128	14	7
Stores		5·87	53	16	5		6·91	57	12	8
Royalties	2	8·73	300	–	–	2	10·50	287	10	6
Horse and Stable Expenses		8·61	78	18	9		9·48	78	19	10
Repairs and Renewals		9·14	83	16	3		9·57	79	15	4
Depreciation	1	4·01	146	14	7	1	4·76	139	12	9
Establishment Charges—										
Rent, Rates, Taxes, etc.		9·66	88	10	6		10·68	88	19	5
Salaries and Management	1	7·59	179	12	6	1	9·08	175	12	6
Bad Debts and Discounts		4·86	44	11	8		5·37	44	15	6
Sundry Expenses		4·00	36	12	10		3·96	32	19	8
	29	10·43	£3,285	12	8	32	0·86	£3,207	2	8

The costs are calculated on the *saleable* tons raised, and not on the actual tons raised.

Worked Example.

The following figures of a Brewery Company represent a month's production and cost of brewing—

	£	s	d.
Materials Consumed—			
Malt	826	12	8
Hops	325	10	6
Sugar	304	6	10
Water	30	–	–
Other Materials (Preservatives, etc)	312	15	9
Beer Duty	975	–	–
Value of Residuals (Grain, Yeast, etc)	128	3	4
Wages	325	14	6
Working Expenses and Oncost—			
Coal	126	11	3
Rent	100	–	–
Cooperage	120	14	2
Repairs	65	13	6
Depreciation	42	11	8
Production, 3,000 Barrels			

It is desired to draw up a Brewery Cost Sheet, showing total cost, and also, against each item, the cost per barrel.

Process Cost Accounts

These are accounts prepared with the object of ascertaining the cost of each separate part or process of a single manufactured article. They are used in chemical industries, and in manufactured food and other products, in which there is conversion of material, and in which by-products arise, as in tanners, and fellmongers.

Each process is treated as a separate department, and the materials, labour, and oncost charged direct or allocated to it. The finished output of one stage becomes, therefore, the raw material of the next stage, and so on. In some cases, the processes are transferred from one stage to the next at a figure higher than actual cost; and each process will then show a departmental profit.

The by-products are usually valued, and their value credited to the process in which they originate, thus reducing the cost of that particular process or stage of production. The example of such accounts, showing processes, with their by-products, and allocation of oncost is shown on pages 418, 419, and 420.

BREWERY COST SHEET

FOR THE MONTH ENDING , 19..

PRODUCTION, 3,000 Barrels

Items	Cost per Barrel			Total		
	£	s	d	£	s.	d
Materials Consumed—						
Malt		5	6·1	826	12	8
Hops		2	2·1	325	10	6
Sugar		2	0·3	304	6	10
Water			2·4	30	–	–
Other Materials (Preservatives, etc.)		2	1·0	312	15	9
		11	11·9	1,799	5	9
Less Value of Residuals (Grain, Yeast, etc)			10·2	128	3	4
Cost of Materials Used		11	1·7	1,671	2	5
Beer Duty		6	6·0	975	–	–
Wages		2	2·1	325	14	6
Prime Cost of Production		19	9·8	2,971	16	11
Working Expenses and Oncost—						
Coal			10·1	126	11	3
Rent			8·0	100	–	–
Cooperage			9·6	120	14	2
Repairs			5·2	65	13	6
Depreciation			3·4	42	11	8
Total Cost of Production	£1	2	10·1	3,427	7	6

Dr. CHEMICALS AND SUNDRIES *Cr.*

	£	s.	d.		£	s	d.
To Cash	186	17	2	By Transfer—			
,, Sundry Creditors	209	16	8	No. 1 Process Account	168	14	4
				No. 2 Process Account	112	15	6
				No. 3 Process Account	86	14	8
				,, Balance (Stock) c/d	28	9	4
	£396	13	10		£396	13	10
To Balance (Stock) b/d	28	9	4				

Dr. PRODUCTIVE WAGES *Cr.*

	£	s.	d.		£	s.	d.
To Cash	85	16	2	By Transfer—			
,, Cash	65	19	2	No. 1 Process Account	126	15	9
,, Cash	76	15	4	No. 2 Process Account	94	14	3
,, Cash	69	17	8	No. 3 Process Account	76	18	4
	£298	8	4		£298	8	4

Dr. MOTIVE POWER *Cr.*

	£	s.	d.		£	s.	d.
To Stock (Coal, Coke, and Sundries)	327	19	10	By Transfer—			
,, Purchases	422	12	8	No. 1 Process Account	327	14	8
,, Wages	170	14	2	No. 2 Process Account	218	15	6
,, Gas and Electricity	82	14	4	No. 3 Process Account	128	14	2
,, Water	46	13	11	,, Balance (Stock) c/d	375	10	7
	£1,050	14	11		£1,050	14	11
To Balance (Stock) b/d	375	10	7				

Dr. WORKS EXPENSES *Cr.*

	£	s	d		£	s	d.
To Sundries	37	16	2	By Transfer—			
,, Cash	34	11	9	No. 1 Process Account	58	12	6
,, Sundries	38	4	3	No. 2 Process Account	48	14	6
,, Cash	36	9	7	No 3 Process Account	39	14	9
	£147	1	9		£147	1	9

Dr. REPAIRS AND RENEWALS OF PLANT, MACHINERY, ETC. *Cr.*

	£	s.	d.		£	s.	d.
To Stores Account	319	10	9	By Transfer—			
,, Purchases	176	15	2	No. 1 Process Account	256	13	6
,, Wages	79	14	5	No. 2 Process Account	192	11	8
				No. 3 Process Account	126	15	2
	£576	–	4		£576	–	4

Dr. DEPRECIATION *Cr*

	£	s.	d.		£	s.	d
To Plant, Machinery, Tools, etc.	495	15	11	By Transfer—			
				No. 1 Process Account	242	11	10
				No. 2 Process Account	154	10	9
				No. 3 Process Account	98	13	4
	£495	15	11		£495	15	11

Dr. NO 1 PROCESS *Cr.*

	£	s.	d.		£	s.	d.
To Raw Materials	2,060	15	8	By Transfer to No. 2 Process Account	3,298	11	2
,, Charges on ditto	56	12	11				
,, Chemicals and Sundries	168	14	4				
,, Productive Wages	126	15	9				
,, Motive Power	327	14	8				
,, Repairs and Renewals	256	13	6				
,, Depreciation	242	11	10				
,, Works Expenses	58	12	6				
	£3,298	11	2		£3,298	11	2

Dr. NO. 2 PROCESS *Cr.*

	£	s.	d.		£	s.	d
To No. 1 Process Account	3,298	11	2	By By-product No 1 Account	387	15	8
,, Chemicals and Sundries	112	15	6	,, Transfer to No. 3 Process Account	3,732	17	8
,, Productive Wages	94	14	3				
,, Motive Power	218	15	6				
,, Repairs and Renewals	192	11	8				
,, Depreciation	154	10	9				
,, Works Expenses	48	14	6				
	£4,120	13	4		£4,120	13	4

Dr. NO. 3 PROCESS *Cr.*

	£	s.	d		£	s	d
To No. 2 Process Account	3,732	17	8	By By-product No 2 Account	246	12	9
,, Chemicals and Sundries	86	14	8	,, Transfer to Trading Account	4,043	15	4
,, Productive Wages	76	18	4				
,, Motive Power	128	14	2				
,, Repairs and Renewals	126	15	2				
,, Depreciation	98	13	4				
,, Works Expenses	39	14	9				
	£4,290	8	1		£4,290	8	1

Dr. BY-PRODUCT NO. 1 *Cr.*

	£	s.	d				
To No. 2 Process Account	387	15	8				

Dr. BY-PRODUCT NO. 2 *Cr.*

	£	s.	d.				
To No. 3 Process Account	246	12	9				

In the above example, the Process Accounts and the By-products Accounts have been numbered for the sake of distinctiveness; but, in actual practice, their proper technical name would be affixed to them, as, for instance, the chemical processes of reduction, concentration, crystallization, and purification.

Departmental Cost Accounts

These are accounts which relate to the working of each department, as in a factory, the object being to ascertain the result of the different departments rather than the actual cost of an article manufactured, as in the business of spinners and weavers.

The accounts are somewhat similar to the ordinary Departmental Accounts. Materials, productive wages, and direct expenses are specifically charged to the departments concerned. Indirect expenses are apportioned according to the amount of floor space occupied by each department, or according to the amount of wages paid, or in proportion to the respective turnovers of the departments. Examples of these have already been given in the chapter on Manufacturing Accounts and Departmental Accounts.

Units of Output and Earning

As mentioned on page 416 units of output are adopted in order that a comparison may be made between different items of expenditure from year to year.

The following are generally in use in the particular businesses mentioned—

Hotels. Per visitor per day
Mines. Per ton of ore raised.
Brickworks. Per 1,000 bricks made.
Collieries. Per saleable ton of coal raised.
Iron and Steel Manufactures Smelters. Per ton per make produced.
Breweries. Per barrel of beer brewed.
Railways. Per ton carried, and per train mile run.
Tramways
Electric Traction Per kilowatt hour, and per car mile run.
Horse Traction. Per car mile run, and per passenger carried.
Gasworks Per ton of coal carbonized, and per 1,000 cubic feet of gas sold, also per therm.
Waterworks. Per 1,000 gallons of water consumed.

Electric Light Works. Per ton of coal used, and per 100 Board of Trade units of electricity sold.
Trading Businesses With a miscellaneous output. Per £100 worth of sales.

Reconciliation of Cost Ledger with Financial Books

Cost Accounts should be kept on double-entry principles, so as to provide a check on the arithmetical accuracy of the work, especially when much detail is involved. The work of costing, however, is often done by an entirely separate department, and the Cost Accounts thus form no part of the ordinary double-entry. Reconciliation of the cost books with the financial books may be effected by means of an adjustment account, called a "Cost Ledger Account," opened in the General or Impersonal Ledger.

All the detail of the cost books, both debits and credits, must be posted in total periodically to the Adjustment Account; and the balance of this account should then agree with the net result of the balances in the Cost Ledger.

To make the latter self-balancing, the contents of the Adjustment Account can be copied into it, changing the name of the account to "General Ledger Account," and transposing the debits and credits. An example, suitable for Contracts is given below.

Alternative Method of Agreement

In some cases, particularly where goods of *one* description are being manufactured for stock, the double-entry is completed in the Cost Ledger itself. A Work in Progress (or Goods in Process of Manufacture) Account is debited with Direct Materials, Materials issued from Store, Productive Wages, Works Oncost, and Office Oncost, the corresponding credits being made to accounts with these various names.

The entries are made by means of the Journal, weekly or fortnightly, from the detail shown on the various sheets allocating Purchases, Direct Expenses, Wages, Works and Office Oncost. At the end of the trading period the accounts are closed by transfer to a Manufacturing Account. An example is given at the foot of the page.

Dr. COST LEDGER ADJUSTMENT ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Stores Used Account				By Stores Returned			
,, Special Materials				,, Plant Returned			
,, Plant Used Account				,, Contracts Account			
,, Wages				,, Work in Progress c/d			
,, Expenses							
,, Establishment Charges							
To Balance b/d							

COST LEDGER

Dr. GOODS IN PROCESS OF MANUFACTURE OR WORK IN PROGRESS *Cr.*

	£	s.	d.		£	s.	d.
To Direct Materials	275	15	6	By Amount c/d	1,519	18	7
,, Materials from Store	6,875	10	8	,, Balance Transferred to Finished Goods Account	11,316	12	1
,, Productive Wages	2,649	12	6				
,, Direct Expenses	327	9	8				
,, Works Oncost	1,059	17	6				
,, Office Oncost	1,648	4	10				
£	12,836	10	8	£	12,836	10	8
To Amount b/d	1,519	18	7				

Dr. DIRECT MATERIALS Cr.

	£	s.	d.		£	s.	d.
To Transfer to Manufacturing Account	275	15	6	By Work in Progress Account	275	15	6

Dr. MATERIALS FROM STORE Cr.

	£	s.	d.		£	s.	d.
To Balance c/d	1,026	11	5	By Work in Progress Account	6,875	10	8
,, Transfer to Manufacturing Account	5,848	19	3				
	£6,875	10	8		£6,875	10	8
				By Balance b/d	1,026	11	5

Dr. PRODUCTIVE WAGES Cr.

	£	s.	d.		£	s.	d.
To Balance c/d	210	15	9	By Work in Progress Account	2,649	12	6
,, Transfer to Manufacturing Account	2,438	16	9				
	£2,649	12	6		£2,649	12	6
				By Balance b/d	210	15	9

In order to economize space, only the final totals have been shown in the foregoing accounts.

The balance of the above Manufacturing Account should agree with the balance of the Manufacturing Account as prepared from the financial books, thus showing the agreement of the two sets of books, though naturally the items in the accounts will appear on opposite sides. The balance would be transferred, in the financial books, to the debit of Trading Account.

The debit amount brought down in the Work in Progress Account is equal to the sum of the credit amounts brought down in four other accounts, thus leaving the Cost Ledger Accounts still in balance. The Work in Progress should also agree with that shown in the financial books, and would be shown as an asset in the Balance Sheet, being valued at cost price of material used, plus a proportion of expenses to date of balancing.

Variation of Second Method

A slight variation of the second method is also in use. In the Cost Ledger, Control Accounts are kept for Stores, Wages, and Expenses, in strict agreement with accounts for these items kept in the financial books, i.e. in the General or Impersonal Ledger. The method of accounting is, briefly, as under—

1. When Stores are Bought—
   - Stores Control Account . . . . *Dr.*
   - To General Ledger Stores Account . *Cr.*
2. When Wages are Paid—
   - Wages Control Account . . . . *Dr.*
   - To General Ledger Wages Account . *Cr.*
3. When Expenses are Paid—
   - Works Expenses Control Account . *Dr.*
   - Sales Expenses Control Account . . *Dr.*
   - To General Ledger Expenses Account *Cr.*
   - (As per Weekly Allocation Sheets)
4. As the Manufacturing Proceeds—
   - Work in Progress Account . . . *Dr.*
   - To Stores Control Account . . *Cr.*
   - ,, Wages Control Account . . *Cr.*
   - ,, Works Expenses Control Account *Cr.*
   - (As per Weekly Allocation Sheets)
5. As Work is Finished—
   - Finished Goods Account . . . *Dr.*
   - To Work in Progress Account . . *Cr.*

The Finished Goods Account, and the Sales Expenses Control Account, are debited to a

DIRECT EXPENSES

Dr.	£	s.	d.	Cr.	£	s.	d.
To Transfer to Manufacturing Account	327	9	8	By Work in Progress Account	327	9	8

WORKS ONCOST

Dr.	£	s.	d.	Cr.	£	s.	d.
To Balance c/d	84	6	4	By Work in Progress Account	1,059	17	6
,, Transfer to Manufacturing Account	975	11	2				
	£1,059	17	6		£1,059	17	6
				By Balance b/d	84	6	4

OFFICE ONCOST

Dr.	£	s.	d.	Cr.	£	s.	d.
To Balance c/d	198	5	1	By Work in Progress Account	1,648	4	10
,, Transfer to Manufacturing Account	1,449	19	9				
	£1,648	4	10		£1,648	4	10
				By Balance b/d	198	5	1

FINISHED GOODS ACCOUNT

Dr.	£	s.	d.	Cr.	£	s.	d.
To Transfer from Work in Progress Account	11,316	12	1	By Transfer to Manufacturing Account	11,316	12	1

MANUFACTURING ACCOUNT

Dr.	£	s.	d.	Cr.	£	s.	d.
To Transfer from Finished Goods Account	11,316	12	1	By Direct Materials Account	275	15	6
				,, Materials from Stores Account	5,848	19	3
				,, Productive Wages Account	2,438	16	9
				,, Direct Expenses Account	327	9	8
				,, Works Oncost Account	975	11	2
				,, Office Oncost Account	1,449	19	9
£	11,316	12	1	£	11,316	12	1

Trading Account, which, when credited with Sales and Stock of finished goods on hand, will show, in concise form, the net profit for the trading period.

Card Cost Ledgers

Card Ledgers have been found very suitable for the purpose of keeping detailed costs of manufactured articles. In manufacturing businesses, they are extensively used, and their many advantages are quite apparent when the matter is carefully looked into. The card can be specially ruled to meet the requirements of any business. Guide cards can be used to indicate the class of goods, and sub-guide cards to indicate the actual articles. Alphabetical guides are sometimes used, and frequently numerical guides are found convenient, or sub-guides corresponding to the factory manufacturing range of numbers. The system can be adapted to show either a summary of costs, or to exhibit the smallest details of material and labour employed, or to show both details and summary.

CHAPTER XXX

STATISTICS AND GRAPHS

THE old saying " Statistics won't lie, but liars will figure," is more than a jest, because it indicates the real problem of dealing with mathematics in business.

Any able man can obtain a number of abstracts from a great mass of business statistics, and by checking and cross checking be able to show that they are absolutely true, but they may be valueless in spite of the work done.

At the heart of the phrase, " You can make figures show anything " lies the serious difficulty that a man must decide what he wants his figures to show.

In collecting information for business purposes, it is highly essential that there shall be a clearly defined purpose. The man must know what he is searching for, what point he wishes to establish, and what end his work shall serve.

For example: An article of commerce has a number of different characteristics, bulk, weight, value, speed or slowness in sale, tendency to deterioration or otherwise, need for exceptional care in handling.

Now these are all points in which at some time or other specific facts may be desirable.

An Illustration

A firm with only limited showroom space have a system of determining the profit it makes upon each class of goods it handles. In applying the percentage of " profit on turnover " test, a certain line excels all the others, and the managers of all the branch shops are encouraged to stock that line and push it.

But one manager objects.

" Quarter my floor space already is practically wasted over that line. We don't turn over the stock in nine months. If I could clear the article right out I could keep two more assistants busy on lines in which we turn over the stock in eight or nine weeks."

It is a new aspect.

Trade had been analysed before for percentage of profit. It had never occurred to the heads of the firm that if the rent of important premises were charged according to space occupied and the speed of sale, the results would be different.

" We lose on the line " was the discovery when analysis was made.

The illustration is used to show that figures do not lie, the arrangement of figures in any kind of order that seems to offer an appropriate moral, may result in very faulty results.

A Second Illustration

Here is another illustration.

Two partners in a business who had worked well together found it convenient to dissolve partnership. They were wholesale traders, and their ground had become inconvenient to work from one centre.

There had been slight differences of opinion on one point. The senior partner liked to work on a percentage chart, the junior liked to turn over heavy money.

Apart, they followed their own pet ideas, and some years later compared results.

" Why your profit must be bigger than my whole turnover," admitted the " percentage man."

" Not quite that " was the reply, " but a thin slice off a very big loaf, is a good mouthful."

The point is that in obtaining business statistics, very much depends upon the clearness of aim of the searcher. He must know what he wants to find and investigate, not one way of arriving at the facts, but any avenue that may seem to be promising.

Value of Correct Accounting

Correct book-keeping is an essential in the successful conduct of business. A business that has its books properly kept, and every year draws up a Trading and Profit and Loss Account and also a Balance Sheet, has records which are both interesting and valuable.

If one wanted to dispose of a business, these are the first records that would be required by a prospective purchaser. These records, however, merely provide, what one might call, mass information. The ultimate effect of them is to show the trader his net profit and his capital for each successive trading period.

What Statistics Are

Statistics are defined by Professor Bowley in his work on the subject as " *numerical* statements of fact in any department of inquiry,

placed in relation to each other." The italics are ours, and importance attaches to these parts, especially the latter.

Supposing the profits of a business for its first five years are stated as follows—

(1) £200 (2) £255 (3) £335 (4) £450 (5) £595

A glance at the figures will show that the profits have been steadily increasing, and this might at first sight seem satisfactory. Supposing, again, that the capitals at the commencement of the trading periods were—

(1) £2,000 (2) £2,100 (3) £2,200 (4) £2,300 (5) £2,400

These figures indicate that the capital in the business is increasing, and might also on that account be considered satisfactory. Such statements of profits and capitals, however, do not give the valuable information they might do, simply because they are not related in the way in which they are directly connected.

They have nothing in common except the date of the trading period. For the purpose of useful comparison, they must be reduced to a common basis: What percentage is each year's profit on each year's capital?

When each year's profit is related to its capital we get the following results—

If the capital which enabled the profit to be earned was £1,000, the profit is 500 per cent, and is a really marvellous return.

If the capital employed was £5,000, the profit is 100 per cent, and is still highly significant.

But if the capital used was £50,000, the profit is only 10 per cent, and would evoke surprise at its insignificance rather than comment on its hugeness.

This shows that figures become valuable only when they set forth the *relative* importance of things. Profits must not be viewed by themselves; they must be related to their respective capitals, or we do not get a proper perspective; that is, profits, in order to be rightly understood and appreciated, must be viewed as returns on the capital used to make them.

Method and Basis of Drawing up Figures

Another thing to remember is that all the figures must be drawn up in the same way. What one man understands by net profit may not be the same as another man's idea.

An accountant would want to know whether all the usual business expenses had been charged before arriving at the figure called *net* profit. He would inquire whether depreciation on all the assets had been provided for, and also whether interest on capital had been charged.

	(1)		(2)		(3)		(4)		(5)
Capital .	£2,000	Capital .	£2,100	Capital .	£2,200	Capital .	£2,300	Capital .	£2,400
Profit .	£200	Profit .	£255	Profit .	£335	Profit .	£450	Profit .	£595
Per cent .	10·0	Per cent .	12·1	Per cent .	15·2	Per cent .	19·6	Per cent .	24·8

Relative Importance of Figures

From the above statement of percentages, we get a really correct idea of the value of the figures. Such profits are steadily increasing *per cent*, and can, therefore, be considered satisfactory. The profits of this business could, on this basis, be compared with profits on the same basis in another similar business.

Again, suppose a man said that he had made £5,000 profit last year. On the face of it this would appear to the man in the street to be a huge profit, and leave him marvelling at the size of it.

To the accountant or statistician, however, the statement would not be convincing. He would first require to know the amount of capital which earned such a profit, before he committed himself to an expression of opinion as to whether this profit were good or not.

Some traders have been known to omit interest on capital, because in the case of a sole trader it makes no difference to him. If he charges interest on capital, he simply gets the profit in two parts, so much as interest on capital, and so much as balance of profit; whereas in the other case, he gets the whole amount as profit. His Capital Account is, in either case, the same.

No accountant would agree with such an argument, and would insist in every case that interest on capital should be charged before arriving at the net profit. A business cannot be run without capital, and therefore the business must be charged with interest for the use of it, whether the money is borrowed or belongs to the proprietor.

It would obviously be no use comparing profits for a series of years, and drawing deductions from them, unless the profits had been arrived at in the generally-accepted method of professional accountants.

The same remark applies to the capitals. It would be necessary to know whether profits and interest had been added, and drawings deducted, in arriving at the given figures; and the basis of preparation would have to be the same throughout the given series of figures. Unless the basis of preparation is on the generally accepted method of doing such work, and unless the method is uniform throughout the whole set of figures, the results would be inaccurate and entirely misleading.

The absurd conclusions drawn from inaccurate or unrelated data are no doubt the cause of the oft-repeated sneer at statistics as the "third form of lies," it being frequently averred that anything can be proved by statistics. Such "statistics," however, as we shall see, are not statistics in the true sense of the word, but merely unrelated conglomerations of figures. It would be no use dealing with the previously-mentioned figures for capital, if in one year interest had been added and in another year omitted, or if drawings had been deducted in some years but not in other years.

An accountant would want to know that the capitals had all been arrived at in the same way, as, for instance, the following—

Could a manufacturer, looking at the above figures, say off-hand: Turnover down, therefore Manufacturing Wages down £50—quite all right. Let us examine the figures carefully and scientifically. Output in the second year is £900 down (£18,000–£17,100). £900 is one-twentieth of £18,000, that is, 5 per cent. In proportion, Manufacturing Wages should be 5 per cent down; they should, therefore, be £3,500 less £175, that is, £3,325. Wages, however, are actually £3,450.

The first conclusion that Manufacturing Wages are £50 down is quite wrong. Manufacturing Wages, instead of being £50 down, are, in reality, £125 up!

This shows one advantage of a careful and scientific examination of figures. It reveals increases in the cost of production, and leads to an investigation as to the cause, so that such increase may be eliminated in the future.

How Percentages May Mislead

Wrong conclusions may also be drawn from percentages, when the actual figures are not disclosed.

Suppose a newly-established coaching institution advertises, in connection with its entries for a certain examination, that it had a 100 per cent passes; and that a much older established institution advertises only 85 per cent passes.

A prospective student might easily be led to

(1)	£	(2)	£	(3)	£	(4)	£	(5)	£
Capital .	2,000	Capital .	2,100	Capital .	2,200	Capital .	2,300	Capital .	2,400
+ Interest	100	+ Interest	105	+ Interest	110	+ Interest	115	+ Interest	120
+ Profit .	200	+ Profit .	255	+ Profit .	335	+ Profit .	450	+ Profit .	595
	2,300		2,460		2,645		2,865		3,115
– Drawings	200	– Drawings	260	– Drawings	345	– Drawings	465	– Drawings	615
	£2,100		£2,200		£2,300		£2,400		£2,500

Wrong Conclusions Drawn from Figures

As an illustration of the wrong conclusions which may be drawn from a cursory inspection of figures, let us take the following—

Year 1	£	Year 2	£
Output . .	18,000	Output . .	17,100
Manufacturing Wages . .	3,500	Manufacturing Wages . .	3,450

infer that the new institution was the better place for him to enter.

Suppose, however, the actual number of entries became known, and that they were 4 in the first and 100 in the latter. Four passes out of four entries is certainly a hundred per cent passes; but the student, on second thoughts, would propably decide to enter the other establishment which had successfully passed 85 out of a hundred.

How Averages May Mislead

Take another case. Suppose the prospectus of a newly-formed company stated, in connection with the business which it proposed to take over, that the *average* profits for the last five years were £14,460. An investor might easily be swayed to take up shares on the strength of that statement. If the profits were progressive, there would be nothing to say against the statement.

Suppose, however, the profits were not progressive but the reverse, the statement is still true, but a knowledge of the actual figures would exercise a profound influence on the mind of the investor. Let us consider the following example—

	Profits £		Profits £
(1)	9,650	(1)	18,640
(2)	12,740	(2)	16,420
(3)	14,850	(3)	14,850
(4)	16,420	(4)	12,740
(5)	18,640	(5)	9,650
	5)72,300		5)72,300
	14,460		14,460

In the first case, the profits are progressive; in the second case, they are *gradually declining.* The average is the same in *each* case. It is quite evident that if the facts were as shown in the second case, and the investor became aware of them, he would quickly turn to some other investment.

Group, Class, and Series

Statistics, as has already been mentioned, deal with numerical statements of facts. Now, the facts may relate to groups, classes, or series.

When a large number of persons or things of similar type, as employees in the same occupation, and houses in the same locality, differ from one another in some characteristic which is capable of measurement, e.g. age, wages earned, assessable value, they constitute what is called a statistical *group*.

If the attributes which differentiate the persons or things are not measurable, but require separate description, e.g. the number of persons in different employments, the number of houses used for different purposes in the same locality, the number of each kind of workers in the industry, namely, men, women, boys, and girls, we get, in each case, a statistical *class*.

If the numbers of a group or class are counted periodically, or the quantities or values ascertained weekly, monthly, quarterly, half-yearly, or annually, we obtain what is known as a statistical *series*.

Groups can be shown by means of diagrams, or described briefly by averages. Classes can be indicated by means of statistical tables, and their sizes denoted by percentages. A series is more easily understood by the aid of a graph.

Examples of Statistical Groups

As regards business, a statistical group might be a number of factories in various parts of the country, each manufacturing a certain article. The whole of the factories would be treated as a group; facts would be collected and examined, and then statements made concerning the group as a whole.

Again, the workers in any particular industry might be selected as a statistical group. There might, however, be different bases of payment, i.e. some might be paid by the hour, some by the day, and others by piece work. The numerical facts concerning these would, therefore have to be tabulated in separate statistical classes, in order to approach nearer to statistical accuracy of statement.

Object of Statistics

The object of statistics is, therefore, to analyse or describe complex groups or large aggregations which cannot be understood by mere observation. In his standard work on Statistics, Mr. Lester Boddington remarks: " The ultimate end of statistical research is to enable comparison to be made between past and present results, with a view to ascertaining the reasons for changes which have taken place, and the effect of such changes on the future."

Statistics enable comparisons to be made between similar aggregates. The average wage of one group of workers is better understood by comparison with the average wage of another group of workers, either in the same place and industry, or in a different place and industry. The trend of the birth, marriage, or death rate for a series of years is more illuminating than the mere change for one year.

Imports of wheat can be compared for a series of years, but can be even better appreciated by being related to another quantity, namely, the consumers, that is, by being stated per head of population.

Statistical Units

There must, of course, be a unit to serve as a basis for comparison; and the unit must also

be kept constant, if comparisons are to be of any use.

Such statistical units are: For production, bushels per acre; for births, marriages, deaths, etc., per 1,000 of population; for cost of living, the family of so many persons; for yield of land, per acre; for rent, the house of so many rooms; for wages, per individual worker; in business for cost of production, per unit of output; for net profit, per cent on turnover.

Estimates and Statistics

There is also this difference between estimates and statistics; estimates for the future are based on statistics of the past. The probable yield of a tax in any year is estimated from its yield in previous years.

Sampling

If it were practicable to examine every individual or unit in a group, the numerical facts so collected would be quite definite and reliable; but since this is an impossibility, the facts concerning the group must be deduced from examination and comparison of typical specimens, that is, by sampling. A person buying a motor-car is told that it will do so many miles per hour. A business man purchasing a lorry is informed that it will carry a load of so many tons; or, buying a gas engine, he is assured that it will do so much work per hour.

In none of these instances has there been any actual test of the thing to be sold; but cars, or lorries, or gas engines of similar construction and details have been properly tested, and therefore it is reasoned that if the results be true of individual units, they will be true of the whole group or class.

Statisticians work on similar lines. They examine a sufficient number of typical examples, as far as possible types evenly mixed, and base their numerical facts on average results, which are then considered to be true of the whole group or class. A sufficient number of examples must always be examined in order that abnormal cases and irregularities may be brought into average.

A manufacturer, to ascertain his rate of output, should not take the rate of the quickest and cleverest worker, neither should he take the rate of the slowest and least capable worker. He should take a large number of cases, including the abnormal ones of the quickest and slowest workers, and then average the result to obtain the mean rate of output. The mean would be the safest guide to follow if he were giving an estimate of the time required for the completion of a certain quantity of work.

Again, if a vein of auriferous ore is struck, the gold is not judged from one particular specimen, but samples of ore are taken from various parts and assayed, and the richness of the vein is judged by the average quality of the various analyses.

The seedsman has by law to guarantee that a certain percentage of the seeds he sells will actually grow. He, therefore, takes samples of each and tests them, and from the average results of their productivity, he guarantees his seeds to reach the required legal minimum percentage of germination. The corn merchant takes samples haphazard from various sacks of a consignment of oats, weighs a typical bushel, and then sells the goods by sample and an average weight per bushel.

Further, large quantities of goods are often bought after an examination of a few samples. A consignment of produce is frequently accepted after inspection of a few packages. The purity of thousands of gallons of drinking water is often assumed after a bacteriological examination of, comparatively speaking, a minute quantity. The principle of sampling and averaging is thus extensively used in business.

Methods of Sampling

The sampling may be done by deliberate mixture of small quantities from various packages or parts of the whole, the object of the mixing being that irregularities shall be neutralized. The process may be repeated two or three times, and the results compared, until a truly representative average result is obtained.

The sampling may also be done by haphazard or random selection; by viewing the whole consignment, marking an article here and there, avoiding the obviously very good and the most easily accessible, and then testing the ones so marked. This process may be repeated, and the selection also varied, so that the sampling shall be truly typical of the whole. Further, the sampling may even be done by the lottery method, i.e. by drawing numbered tickets, and then examining those articles denoted by the numbers so drawn.

Suppose we were compiling statistics showing the average wages in certain industries. We might divide them into classes or groups, e.g. compare miners' wages in one district with miners' wages in another district, or agricultural

wages in one county with agricultural wages in another county; or we might deal with factory wages in different manufacturing towns, and might subdivide the groups into wages of male workers and wages of female workers.

Small factories as well as large ones would have to be included in the investigation, so that irregularities might be neutralized. The very large factory might be able to buy raw materials at a cheaper rate, and might, in order to command the best labour, pay a slightly increased rate of wages; but it might have a higher ratio of expenses to turnover than the smaller factory, thus giving the latter its chance to compete. All factories would have to be included in order to get a truly representative result.

Obtaining Average Results

To take another example, we could not arrive at the average height of a policeman by considering merely the men in one police force and ignoring the other bodies of police. A policeman is a representative of a distinct *group* of workers, and any selected body of police is merely a class of that group.

To obtain the average of a *group*, we need consider only specimens of that group. To obtain the average of a *class*, we must confine ourselves to specimens of that particular class. Examples would have to be taken from every police force before we could arrive at a truly representative average. But, all through the investigations, there would be the selection and examination of as many types or examples as possible—in other words, the process of sampling.

Approximations and Errors

Accountancy is, of course, an exact science, and therefore demands and obtains perfect or *absolute* accuracy. There is no question of degrees of accuracy. In statistics, however, we may deal with *degrees* of accuracy such as round numbers, estimates, and probable results.

Now since, in many cases, statistics are estimates or approximations, errors may, therefore, arise in connection with them. The term "error" is not used in the popular sense of "mistake," but in a technical sense to signify "limit or extent of approximation."

The difference between the correct number and the actual number is called the "absolute" error; and when the absolute error is reduced to a ratio, it is called the "relative" error. Thus, if a case, supposed to contain 400 articles, is found actually to contain 424, the *absolute* error is 24; and 24 divided by 400 gives ·06 as the *relative* error. As the items increase in number and value, absolute error tends to increase, but relative error tends to decrease.

When dealing with large numbers, recourse is often had to the use of round figures. In thus approximating, care must be taken to see that the last digit kept is the one nearest to the estimate. For example, 284,574 is $284{,}57^{0}$ or $284{,}6^{00}$ or $285{,}^{000}$ or 28^{0000}, but not $284{,}5^{00}$ or 284^{000}. In the third case, as the number is midway between 284,000 and 285,000 it would be as correct to write 284·5 (thousands). Now, 285^{000} is a convenient way of writing 285,000 when it is required to show that the figures stated are correct only to the last digit given.

With large numbers it is also quite usual to approximate to the nearest hundred or thousand. Thus, £78,857 may be dealt with in most cases as 78·86 thousand pounds. The absolute or real error is £3, and the relative error (i.e. in relation to the £,1000) is $\frac{£3}{£78{\cdot}857}$.

Indicating the Limit of Approximation

When dealing with approximations, it is desirable to indicate the "error" or limit of the approximation, so that we may know to what extent the data is reliable.

For example, take the numbers 510 and 495. Suppose it is required to write down these to the nearest hundred, showing in each case the "error." In the first case, the number would be 500, and the error would be negative or subtractive, i.e. -10. In the second case, the number would also be 500, but the error would be positive or additive, i.e. $+5$.

If sufficient examples are taken, these positive and negative errors will neutralize one another, and the error is said to be *unbiassed*, that is, not inclining in any particular direction, but sometimes negative and sometimes positive.

If, however, we raise numbers in such cases to the next higher hundred, the error will always be positive and cumulative, i.e. will accumulate in the total, and is, therefore, said to be *biassed*, that is, tending always in one direction. If, on the other hand, we reduce numbers in such cases to the next lower hundred, the error will also be *biassed* or *biased* (both spellings being in use), for it will always be negative or subtractive.

The following Table will serve to illustrate clearly what has already been explained.

TABLE
SHOWING APPROXIMATIONS WITH THEIR ERRORS

Actual Number	Nearest 100	Unbiased Error	Next Higher 100	Biased Error	Next Lower 100	Biased Error
9,218	9,200	− 18	9,300	+ 82	9,200	− 18
4,667	4,700	+ 33	4,700	+ 33	4,600	− 67
6,439	6,400	− 39	6,500	+ 61	6,400	− 39
8,356	8,400	+ 44	8,400	+ 44	8,300	− 56
6,823	6,800	− 23	6,900	+ 77	6,800	− 23
5,765	5,800	+ 35	5,800	+ 35	5,700	− 65
41,268	41,300	+ 32	41,600	+ 332	41,000	− 268
6,878	6,883·3	+ 5·3	6,933·3	+ 55·3	6,833·3	− 44·6

The figures underneath the totals in the above Table denote the average, which is found by dividing the totals by 6 in each case.

Percentage Approximation

Figures may also be stated as correct only to a certain percentage. For example, suppose the numbers 38,456 and 7,832 and 631,843 are given as correct to 2 per cent, 5 per cent, and ·5 per cent respectively. Now, 2 per cent of 38,456 is 769. The number 38,456 may, therefore, be 769 *more*, or it may be 769 *less*. To be precise, it should be written 38,456 ± 769. Similarly, the second number should be written 7,832 ± 392. Again, ·5 per cent = $\frac{\cdot 5}{100}$, or (multiplying top and bottom of fraction by 10 to get rid of the decimal) $\frac{5}{1000}$. In the same way that 5 per hundred is shortened to 5 per cent, or 5%, so 5 per thousand is shortened to ·5 per cent, or 5 per mille, or 5‰. Now, $\frac{5}{1000}$ths of 631,843 is 3,159; and the third number is, therefore, correctly written as 631,843 ± 3,159.

Statistical Averages

Averages are much used in statistics. Receipts per car mile, receipts per train mile, yield per acre of land, density of population per acre, consumption of food per head of population—these are all examples of averages.

Some of them are, of course, fictitious averages. Density of population per acre assumes that population is evenly distributed like grass on lawns, and leaves out of account woods, forests, commons, etc., which are not populated.

Yield of land per acre assumes that all land is cultivated, ignoring land which is not fertile, and therefore not cultivated. Consumption of food per head of population supposes that one person eats as much as another, and that a child eats as much as an adult. Such averages, however, are useful for purposes of comparison of one year with another, or of one period of years with another period.

Arithmetical Average

The arithmetical average is found by dividing the total of various items by the number composing the total. Thus, if the price of a number of articles is 5d. each, and the price of a second similar number is 7d., and of a third similar number 9d., and of a fourth similar number 11d., then the average price is

$$\frac{5 + 7 + 9 + 11}{4}\text{d.} = \frac{32}{4}\text{d.} = 8\text{d.}$$

Supposing the number of articles at each price was 50, we can then verify the result, thus—

			£	s.	d.	
50 @	5d.	=	1	–	10	
50 @	7d.	=	1	9	2	
50 @	9d.	=	1	17	6	
50 @	11d.	=	2	5	10	
200			£6	13	4	= Total Cost

Now 200 articles at 8d. each would come to £6 13s. 4d. This shows that the average price of 8d. is quite correct, because we arrive at the same figures as the actual cost.

Weighted Average

The weighted average is another average used in statistics. Let us suppose that, in the above

example, the number of articles was not equal at each price, but was as follows—

			£	s	d	
12 @	5d.	=		5	–	
20 @	7d.	=		11	8	
8 @	9d.	=		6	–	
8 @	11d.	=		7	4	
48			£1	10	–	= Total Cost

Now, if we find the cost of 48 articles at 8d. each, the average of the above four prices, we get £1 12s., which shows that, in this case, 8d. is *not* the correct average price. We must, therefore, compound the number of each article with its price, and find a new average, as follows—

$$\frac{12\,(5) + 20\,(7) + 8\,(9) + 8\,(11)}{12 + 20 + 8 + 8}\text{d.}$$

$$= \frac{60 + 140 + 72 + 88}{48}\text{d.}$$

$$\frac{360}{48}\text{d.} = \frac{30}{4}\text{d.} = \frac{15}{2}\text{d.} = 7\tfrac{1}{2}\text{d.}$$

We can now verify the result. The cost of 48 articles at $7\frac{1}{2}$d. comes to £1 10s.; and this is exactly equal to the actual cost shown above. This shows that $7\frac{1}{2}$d. is, in this case, the *true* average. Now, this average is called the "weighted" average. The weights are the numbers of articles of each sort. Each price is weighted with its appropriate number, and the total of the weighted products is then divided by the total of the weights, thus giving the "weighted" average.

The rule for ascertaining the weighted average may be evolved in the manner of a mathematical formula. Let n, n_1, n_2, n_3, etc., be the number of articles bought at different prices; and let p, p_1, p_2, p_3, etc., be the prices of n, n_1, n_2, n_3, etc., respectively. The proceeds of sale of n articles will be np; and the proceeds of sale of n_1 will be n_1p_1; of n_2, n_2p_2; and so on. Thus—

$$\text{Total Proceeds} = np + n_1p_1 + n_2p_2 + n_3p_3 + \text{etc.}$$
$$\text{Total Quantity} = n + n_1 + n_2 + n_3 + \text{etc.}$$
$$\text{Weighted Average} = \frac{np + n_1p_1 + n_2p_2 + n_3p_3 + \text{etc.}}{n + n_1 + n_2 + n_3 + \text{etc.}}$$

This method is also applied to wages. The number of employees at each rate is multiplied by that rate, thus giving a weighted product. The total of these weighted products is then divided by the total number of the employees, thus giving the average wage per employee. The "weighted" average is thus seen to be merely another form of arithmetical average; in fact, some writers classify the two as "simple arithmetical average" and "weighted arithmetical average."

Descriptive Average

The descriptive average is another term used by writers on statistics. It is really an arithmetical average, but is used to denote the average of a group. Examples of descriptive average are: the average rent of a five-roomed house outside London; the average family income; the average number of children living at home; the average family expenditure on food, etc. In some cases they are arithmetical averages, in others they are weighted averages.

Moving Average

The moving average is another kind of average used in statistics. In this case the average is taken over a long period of years. Trade is sometimes found to move in cycles of five years, but, generally speaking, a ten years' average will be found more useful.

Each year, the top year of the series is omitted, and a later year included at the bottom of the series. By this means, bad years are offset by good ones. Short term fluctuations, good or bad, do not thus obscure the general trend or variation. A well-known example of moving average was the Income Tax Authorities' former method of computing a trader's income for the year of assessment on the average of the three years preceding the year of assessment.

Progressive Average

The progressive average is a further form of average used by some writers. This may be useful in the early years of a business. Thus, at the end of two years, the average of those two years would give the first average; at the end of the third year, the average of those three years would give the second average; at the end of four years, the average of those four years would give the third average; and so on, until eventually a moving average of a period of ten years could be obtained. The advantage of the progressive average is that it will always include up-to-date changes or variations, as it is a cumulative average.

Diagrams and Graphs

The representation of statistical facts by means of diagrams and graphs is a popular method of exhibiting the fluctuations in a

business. The diagrams are not intended to furnish additional data, but to give a pictorial representation of the data already obtained. They are not pictures for the purpose of advertisement, but for the purpose of supplying useful information concerning the business itself.

The graphical representation gives the mind a quicker grasp of fluctuations, changes, and general tendencies, and a more lasting impression than what a mere study of numerical results would do. The wandering of a line thus conveys much more to the mind, and also conveys it more quickly, than the statistical table.

The use of the graph in business is to relate output or production to cost of materials, wages, and indirect expenses, and to interpret graphically the tendencies, fluctuations, and changes indicated by the table of numerical values; to relate price to quantity, profit to turnover, value to time, and similar things; or to bring into focus the table of numerical results.

If we construct a table of numerical values showing the price of an article at different periods of time, and then embody these results in a pictorial representation, the resulting diagram is called a graph. Though price and time vary considerably, there is a direct connection between them.

And whenever two facts can be expressed by corresponding numerical values, we have all the data for plotting their positions on a graph. Graphical representation is, therefore, used in business to show the relationship of production to cost, profit to turnover, expenses to income, income or turnover to successive periods, etc. The most familiar daily graphs are probably the weather charts, prepared by the meteorological experts from the readings of the barometer.

Construction of a Graph

Graphs are generally prepared on special paper ruled with small squares, which act as a framework for the graph. A vertical line *OY* is drawn at the left-hand side of the paper, and a horizontal line *OX* at the base of the paper. These two lines are called the "axes of reference," and the point *O* is called the origin or "zero" point, a line having naturally "nothing" of length at its commencement, or, as it is called, its point of origin.

Simple Illustration of a Graph

By way of simple illustration, let us suppose that the following table represents the value of new laid eggs during the twelve months of a year, and that the figures denote the price in pence per egg—

TABLE OF VALUES

Month	Price	Month	Price
19..	*d.*	19..	*d.*
January	6	July	1½
February	5½	August	2
March	4¾	September	3
April	3¾	October	3½
May	2½	November	4½
June	2	December	5

We draw a base line *OX*, and a vertical line *OY*. Let one square denote a unit of time along *OX*, and also a unit of value along *OY*. Along the base line *OX*, we take twelve units, one for each of the twelve months. Along the vertical line *OY*, we take six units to represent six pence. We see from the table, however, that we require to show farthings, half-pennies, and three-farthings in price values. Now, since a whole square denotes 1d., we must take one-quarter of it to denote a ¼d., one-half for a ½d., and three-quarters for ¾d. The position of the first value (6d.) will be denoted by a dot or mark six squares high on the vertical line representing January.

The position of the second value (5½d.) will be denoted by a dot or mark five and a half squares high on the vertical line representing February. The position of the lowest value (1½d.) will be denoted by a dot or mark one and a half squares high on the vertical line representing July; and so on for the remaining months. Having plotted the positions of the different values, the next thing is to join them up by a continuous line, and thus make the graph. The above illustration is, of course, a very simple one.

The graph will be as shown on the following page.

"Zero" Not Shown on Graph

In more complicated examples, it may not be possible with high figures to show "zero" on the graph. Thus, if we were drawing a graph of prices ranging from 20 to 70 pence, for the years 1921 to 1927, there would be no need to show values below 20d. or above 70d. In such a case, the point *O* may, therefore, be 20; that is, *OX* may slide vertically up *OY*; and values less than 20 will be below the line *OX*.

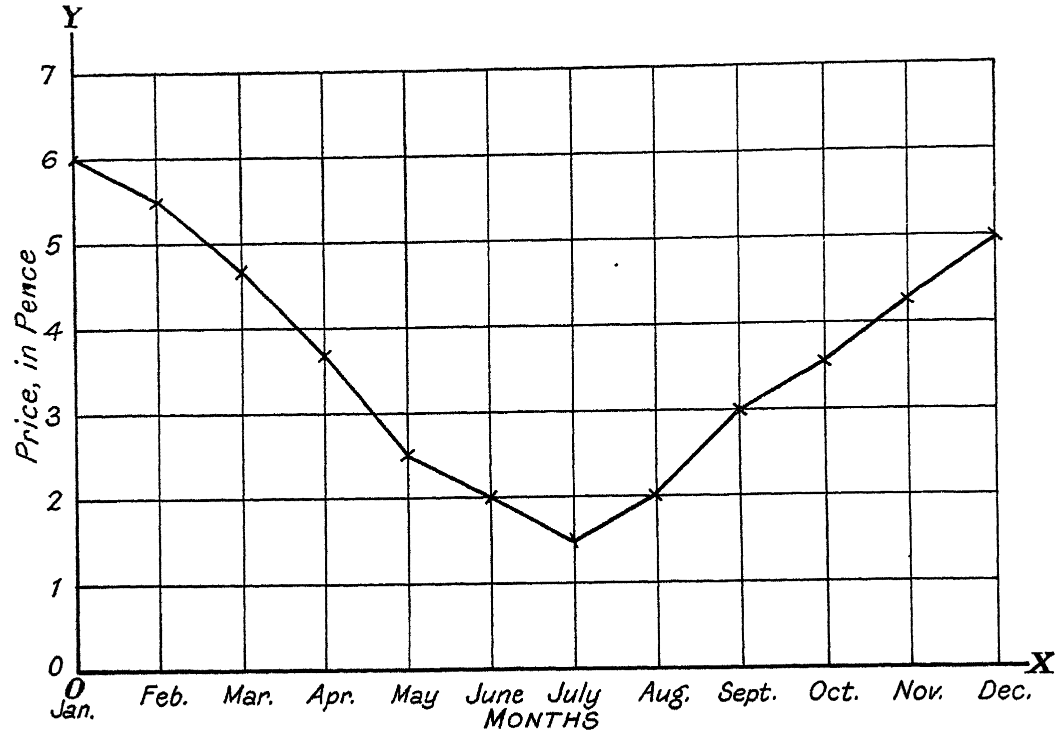


DIAGRAM I

The intermediate values of 25d., 35d., and 65d. would, if required, be obtained by the interpolation of dotted lines, representing half-square values on the graduated axis OY.

An illustration is given in Diagram 2 on this page.

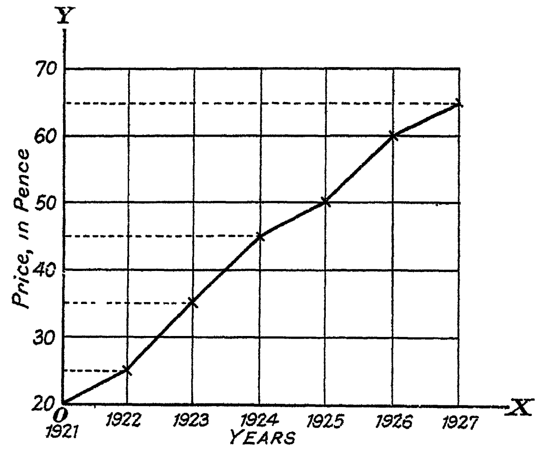


DIAGRAM 2

Graph of Percentages

Again, suppose it is required to draw a graph illustrating the table of percentages given below.

We take a sheet of graph paper 8 in. long, each inch being divided into tenths, and 5 in. wide, each inch being likewise divided into tenths. Now, vertically we have 80 squares. The percentages range from 55 lowest to 80 highest, that is, we have to show 25 units of percentage. And 80 divided by 25 gives 3 squares as the

PERCENTAGE OF WORKING EXPENSES ON TOTAL RECEIPTS

1918	1919	1920	1921	1922	1923	1924	1925	1926	1927
56%	66%	70%	71%	79%	72%	69%	60%	64%	72%

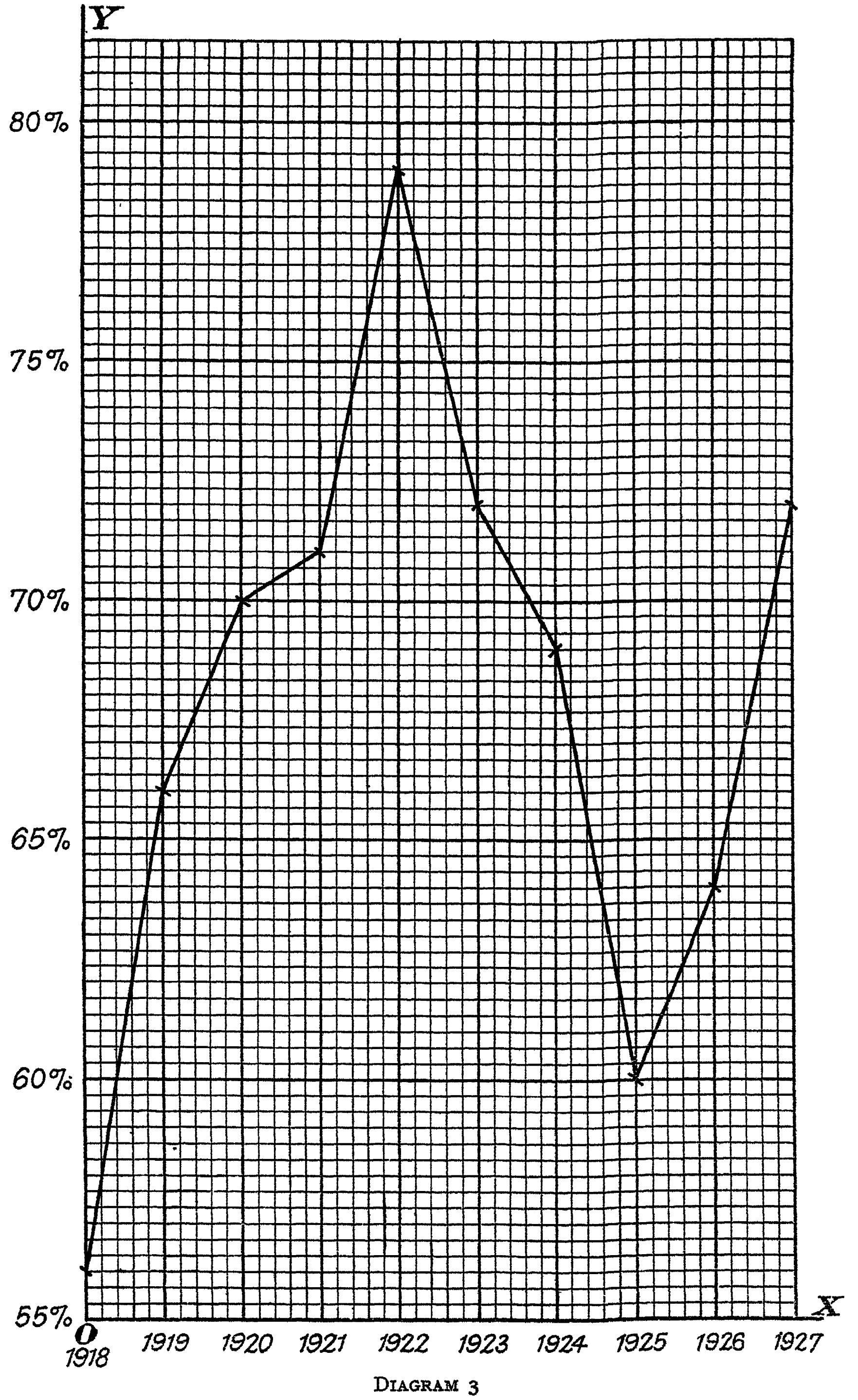

Y
80%
75%
70%
65%
60%
55%
O
X
1918
1919
1920
1921
1922
1923
1924
1925
1926
1927

DIAGRAM 3

largest possible number of squares to represent 1 unit of percentage. Again, in width or horizontally we have 50 squares. We have ten years to show on the graph. And 50 divided by 10 gives us 5 squares to represent 1 unit of time, i.e. one year. The graph will be as shown on page 435.

Reducing the Vertical Scale

In the above diagram, the graph was made as large as the sheet of paper would permit. Choice of scales is very important in a graph. If the vertical scale is too large, it may tend to accentuate increases and decreases; if, however, it is too small, it may tend to minimize increases and decreases; and in either case it would not be reliable.

Suppose we plot the previous graph on a smaller *vertical* scale, the horizontal scale remaining the same. Let us, in the second graph, take *one* square to represent a unit of percentage, i.e. 1 per cent. The graph will be as follows—

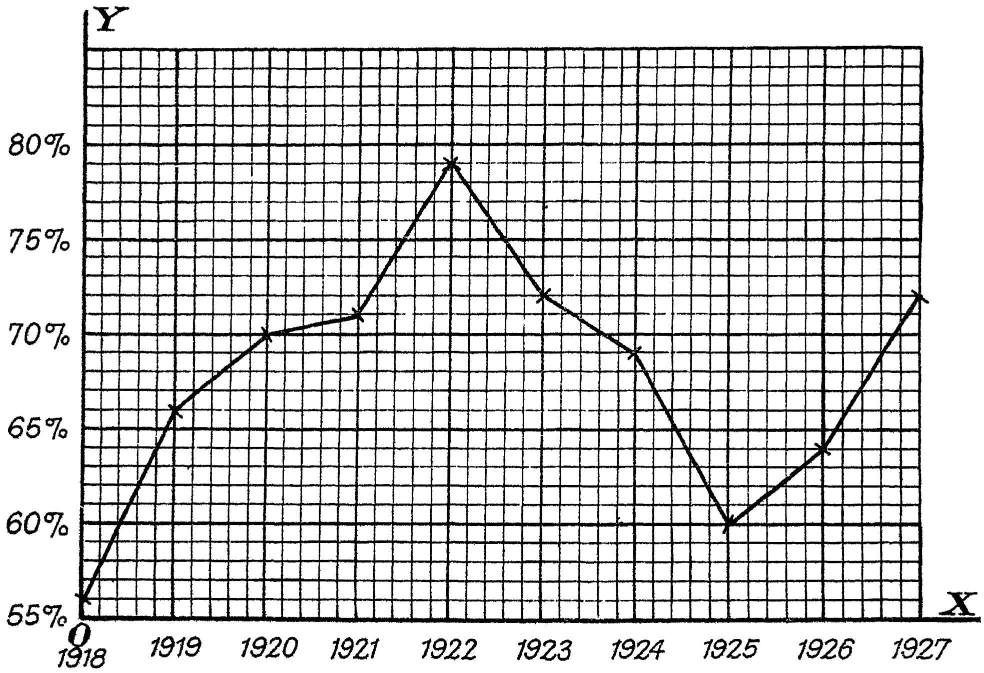


DIAGRAM 4

On comparing the two diagrams, it will be seen that the smaller scale represents quite clearly the rise and fall of the curve. On the other hand, the vertical scale must not be *too* small, or it will tend to obscure the changes or variation of the graphical curve.

Natural Scale and Logarithmic Scale Graphs

The graphs shown as illustrations in this chapter are plotted on what is called the *natural scale* method; that is, the actual results or numbers are shown. This method has many advantages, but it has also one serious disadvantage. Under the natural scale method, rises and falls of equal magnitude have to be denoted by the same vertical distance. Thus, suppose the Sales rose in one year from £5,000 to £10,000, an increase of 100 per cent; and suppose later on they rose in one year from £100,000 to £105,000, an increase of 5 per cent. The arithmetical increase of £5,000 is, in each case, represented by the same rise in the vertical scale, although one is a percentage increase of 100 and the other only 5, a difference of 95 per cent.

When it becomes absolutely necessary to take into consideration the ratios of rise or fall, or percentages of increase or decrease, the graph must be plotted on what is called the *logarithmic scale.*

American writers, it may be noted, distinguish the two kinds of graphs as *arithmetic* graphs and *logarithmic* graphs, because in the former we use the arithmetical numbers, and in the latter, the logarithms of such numbers.

Array, Median, Quartile, and Mode

Whenever a number of similar elements are arranged side by side in order of magnitude, either right to left or left to right, they are technically termed an "array." The middle magnitude of those "arrayed" is said to be the "median." It is not the average, but is the quantity or element most closely corresponding in magnitude to all the others in the array. If the number of magnitudes arrayed is even, the median does not really exist in the array. It is supposed to be midway between the two most nearly central magnitudes. To have a real middle magnitude in the array, there must be an exact number of magnitudes on each side of it. Thus, if we draw seven vertical lines to represent seven magnitudes, No. 4 is the real median, because there are exactly three magnitudes on each side of it. The median is frequently more representative of the whole class than is the average, because it is not affected by the magnitude of the "extremes" or end quantities as is the arithmetical average. It can be ascertained and located by inspection. The disadvantage is that it cannot be measured by simple mathematical formula; all the data must first be "arrayed." If the array is still further divided, the magnitude midway between the lower extreme and the median is called the "lower quartile"; and the magnitude midway between the median and the upper extreme is called the "upper quartile." If the tops of the lines or magnitudes composing the array be joined, it gives what is usually called a "frequency" curve.

Statistical writers also use the term "mode" to signify the predominating items in a group of the same or approximately the same elements or magnitudes. The "mode" is thus the "type" of the group; it is also technically called the "norm." In the vertical lines representing an array, there will be found certain numbers identical in magnitude; and if the tops of these lines were joined, it would give a straight line called the "mode" or "norm."

Suppose, for example, we select 61 magnitudes and array them, that is, represent them by proportional vertical lines, the "median" would be marked at No. 31, the "lower quartile" at No. 16, and the "upper quartile" at No. 46. Now, if we scanned the series 1-16-31-46-61, we should find, in each case, exactly 15 elements between the numbers so given. The "mode" would appear in the magnitudes on line 30, between Nos. 31-40, which all have the same magnitude; and here, of course, the curve would tend to "flatten" or become a straight line. Such an array might represent a group of factory workers, the vertical lines being proportional to their wages.

Circle Diagrams

For purposes of comparison, areas are sometimes used in diagrams. The circle (or "pie" graph, as American writers call it), is often used to represent total sales or total costs. The circle is divided into segments in the proportion that each item of expenditure bears to the total expenditure.

Circle of Costs

For the purpose of illustration, let us take the following—

STATEMENT OF ELECTRICITY PRODUCTION

	£
Fuel, including Coal, Carriage, Unloading, Storing, etc.	12,000
Oil, Waste, and Engine Room Stores	1,600
Salaries and Wages at Generating and Transformer Stations	5,350
Repairs and Maintenance of Buildings, Engines, Boilers, Dynamos, and Plant	2,450
Total Generating Expenses	21,400
Distribution Expenses, including Repairs and Maintenance of Mains, Meters, Apparatus and Plant	1,500
Total Generating and Distribution Costs	22,900
Rent, Rates, and Taxes	3,500
Management Expenses, including Salaries, Stationery, Bad Debts, and Audit Fee	5,300
Total Expenditure	£31,700

We will illustrate first the Total Generating and Distribution Costs, £22,900, which will represent the whole circle or 360 degrees; and its component parts, which will represent the various segments of the circle. Now, the area of a segment is proportional to the angle in the segment. We must, therefore, find what angles the various amounts represent when the total of £22,900 represents a circle of 360 degrees. Fuel amounts to £12,000 out of a total of £22,900. Fuel must, therefore, be represented by an angle of $\frac{12000}{22900}$ of 360 degrees, or 188·6°;

Oil, waste, etc., must be represented by an angle of $\frac{1600}{22900}$ of 360°, or 25°; Salaries and Wages by an angle of $\frac{5350}{22900}$ of 360°, or 84°, Repairs and Maintenance by an angle of $\frac{2450}{22900}$

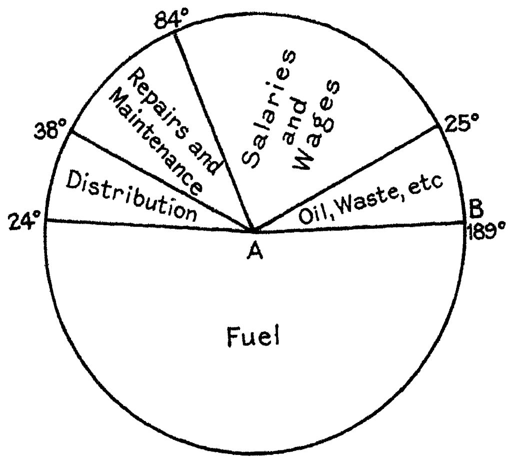


DIAGRAM 5

of 360°, or 38·5°. To avoid decimals, we approximate two of the angles to the nearest whole number, and ignore the third decimal; for the angles must not total to more than 360°. The angles will, therefore, be 189°, 25°, 84°, 38°,

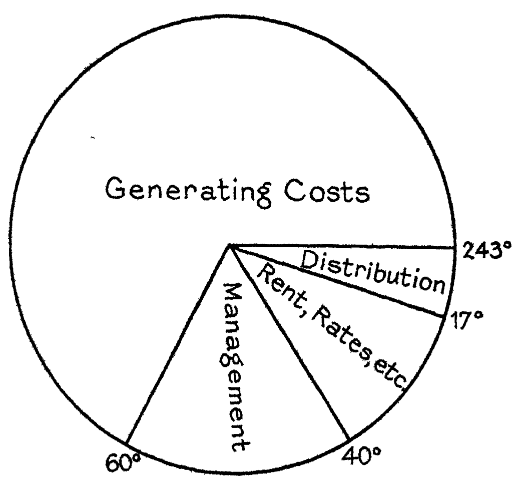


DIAGRAM 6

and 24°. After constructing a circle with centre *A*, we draw the radius *AB*, and then by means of a protractor mark off the angles required, thus arriving at the diagram shown at the top of the column.

Circle of Expenses

Suppose now we wish to illustrate the second part of the Statement—

	£
Generating Costs	21,400
Distributing Expenses . . .	1,500
Rent, Rates, and Taxes . .	3,500
Management Expenses . . .	5,300
Total	£31,700

The total of £31,700 will represent a circle of 360 degrees, and the angles of the segments for the various expenses will be 243°, 17°, 40°, and 60°. The circle when completed will be as shown at the bottom of the previous column.

Circle of Volume of Trade

Again, suppose we wish to illustrate the volume of trade done by a business house as follows—

London, 10%; Provincial, 55%; Colonial, 20%; Foreign, 15%.

Here, the total sales or 100 per cent will represent a circle of 360 degrees. The angles required will be $\frac{10}{100}$ of 360°, or 36°; $\frac{55}{100}$ of 360°, or 198°; $\frac{20}{100}$ of 360°, or 72°; and $\frac{15}{100}$ of 360°, or 54°. The circle when finished will be as follows—

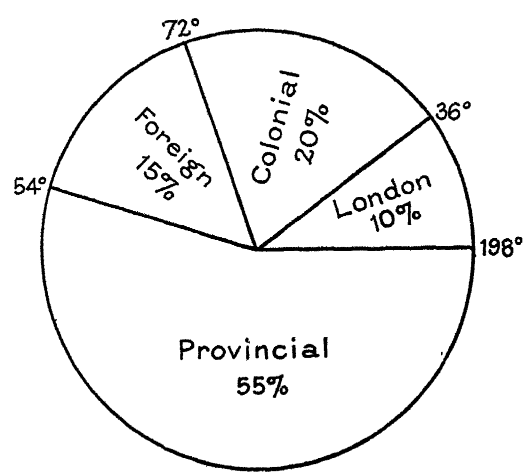


DIAGRAM 7

Shaded Comparative Circles

Circles with shaded areas can be used as a means of comparison, provided the data concerned can be reduced to a common basis. Suppose we wish to compare Orders obtained

by agents in different areas, and that the comparison is to be per agent per 1,000 of population. Let the data be as under—

Area X. Population, 60,000; orders obtained, £1,440; agents, 8.
Area Y. Population, 100,000; orders obtained, £2,200; agents, 11.

Now, in area X, orders per 1,000 of population are £$\frac{1440}{60}$, or £24; and orders per agent per 1,000 of population are £$\frac{24}{8}$, or £3.

In area Y, the orders per 1,000 of population are £$\frac{2200}{100}$, or £22; and orders per agent per 1,000 of population are £$\frac{22}{11}$, or £2.

If, therefore, we take half the circle, namely 180°, and shade it to represent, in area X, the £24 of orders per 1,000 of population, then the corresponding angle to represent, in area Y, the £22 worth of orders per 1,000 of population will be $\frac{22}{24}$ths of 180°, or 165°. Again, the orders per agent per 1,000 of population in area X are £3. The angle to denote this will, therefore, be $\frac{3}{24}$ths of 180°, which is 22·5°, or 23° to the nearest whole number. Similarly, the angle to denote orders per agent per 1,000 of population in area Y will be $\frac{2}{22}$nds of 165°, or 15°. The circles will, therefore, be as shown at the foot of the page.

Bar Diagrams

Bar diagrams are also to illustrate items which are made up of two or three components, provided there is no question of area or volume involved in the things compared. The following figures of Bankers' Clearings for two years are taken from *Pitman's Practical Banking*—

BANKERS' CLEARINGS
(000's omitted)

Year	Total	Town	Metropolitan	Country
	£	£	£	£
1	39,018,903	32,852,933	2,093,750	4,072,220
2	34,930,559	30,268,214	1,660,166	3,002,179

In order to be able to illustrate the above by means of a bar diagram, we must first of all get some idea of the relative size of the three

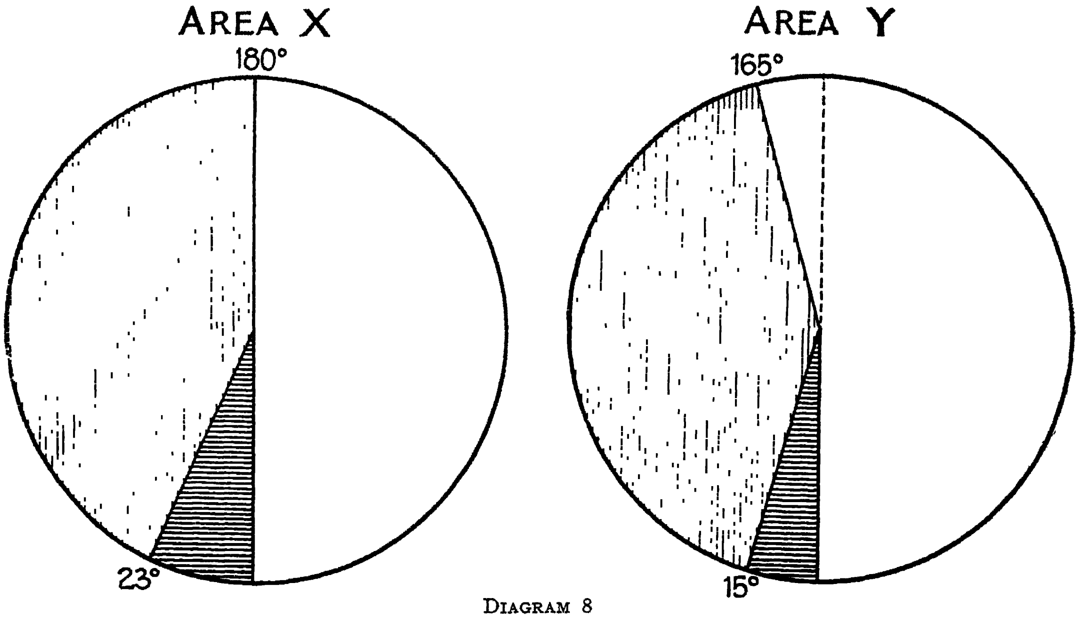


DIAGRAM 8
ORDERS PER AGENT PER 1,000 OF POPULATION

components making up each total. We, therefore, reduce them to percentages, and approximate the decimal parts to the nearest whole numbers, making sure, however, that the three parts do not total to more than 100 per cent. In year 2, we cannot approximate all three percentages to the nearest whole number, as our total will then be 101 per cent; we therefore approximate the two with the highest decimals, and ignore the decimal part of the third percentage. The result is as follows—

Now, let us take 6 in. as the length of a bar to represent 39 million pounds (really 39 thousand millions). Some such length is necessary, if the small second component is to be at all visible in the diagram. In proportion, we must take $\frac{35}{39}$ths of 6 in., i.e 5·4 in., to represent approximately 35 millions (really 35 thousand millions). Again, if 6 in. represents the total of the first year, or 100 per cent, then Town Clearings must be represented by a length of $\frac{84}{100}$ths of 6 in., Metropolitan by $\frac{5}{100}$ths of 6 in.,

BANKERS' CLEARINGS

Year	Total	Town	Metropolitan	Country
	Per cent	Per cent	Per cent	Per cent
1	100	84 (84·2)	5 (5·3)	11 (10·5)
2	100	87 (86 6)	5 (4·7)	8 (8·5)

BANKERS' CLEARINGS

Year	Total		Town		Metropolitan		Country	
	Per cent of Total	Length in Diagram	Per cent of Total	Length in Diagram	Per cent of Total	Length in Diagram	Per cent of Total	Length in Diagram
1	100	6·0 in.	84	5·0 in.	5	0·3 in.	11	0·7 in
2	100	5·4 in.	87	4·7 in.	5	0·3 in	8	0·4 in

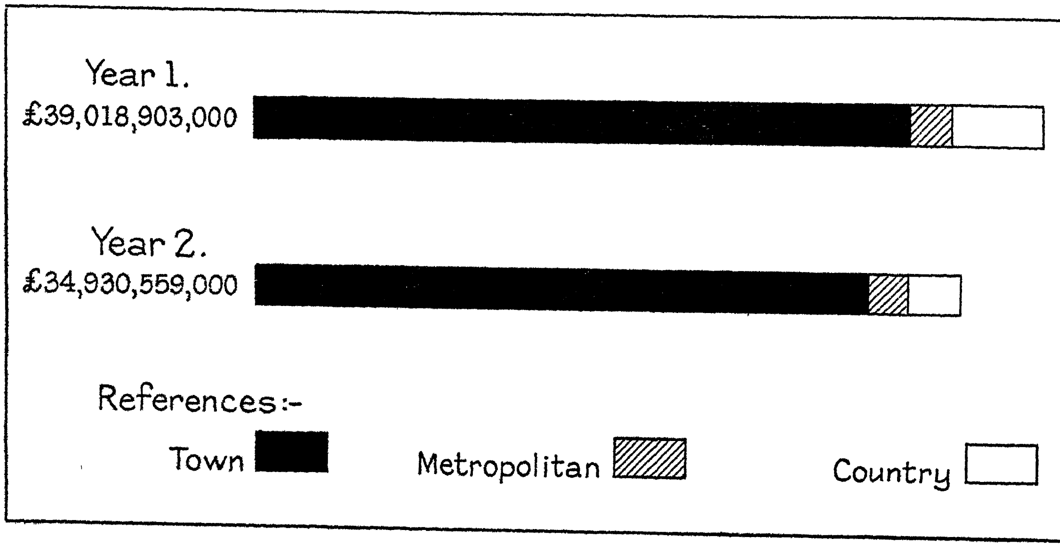


DIAGRAM 9

and Country by $\frac{11}{100}$ths of 6 in. The linear measurements for year 2 will be arrived at in a similar way. Finally, we shall get the table shown on page 440.

In approximating the decimal lengths, care must be taken to see that the total measurements do not, when totalled, exceed 6 in. and 5·4 in. respectively.

From the above list of measurements, the construction of the diagram becomes an easy matter. All that is necessary is to use a flat ruler with one edge marked in tenths, in order to get the decimal measurements correct. The bars need not be wider than three-tenths of an inch. The diagrams, when finished, will appear as shown on page 440.

Bar Sales

Bar Charts are sometimes used for comparison of Branch Sales. Diagram No. 10, on this page, gives an illustration of this. The chart is constructed from the following data—

Branch	Sales	Cost	Expenses	Profit
	£	£	£	£
X	52,000	30,000	14,000	8,000
Y	42,000	23,000	16,000	3,000
Z	26,000	12,000	5,000	9,000
Total	£120,000	£65,000	£35,000	£20,000

In the diagram, a small square represents, horizontally, £2,000 Sales.

The relative cost and profitableness of each Branch is brought out very clearly. Criticism would at once arise on several points. Why are selling expenses for Branch Y greater than for Branch X? How is it that Branch Z with the smallest sales shows the largest profit? Are the goods sold to greater advantage, or is it owing to more economical management? Why is the profit so small at Branch Y? Is it because it is situated in a locality where, owing to keen competition, prices are very much cut, or is it due to inefficient management?

Bar Turnovers

Bar diagrams are also used to show each year's turnover for a period of years. An illustration of this appears on page 442. The varying magnitudes of the yearly turnovers are very clearly brought out, and would be readily intelligible to anyone who might have difficulty in grasping a long list of figures.

In the diagram, one square has been taken to represent £2,000; half a square will, therefore, represent £1,000, and a quarter of a square, £500. Every tenth square, vertically, represents £20,000.

Use of Term "Legend"

American writers in their diagrams often use the word "Legend" to denote what we call "References" Thus in graphs or charts, the different marks used to distinguish the various lines or curves, such as thick line, thin line,

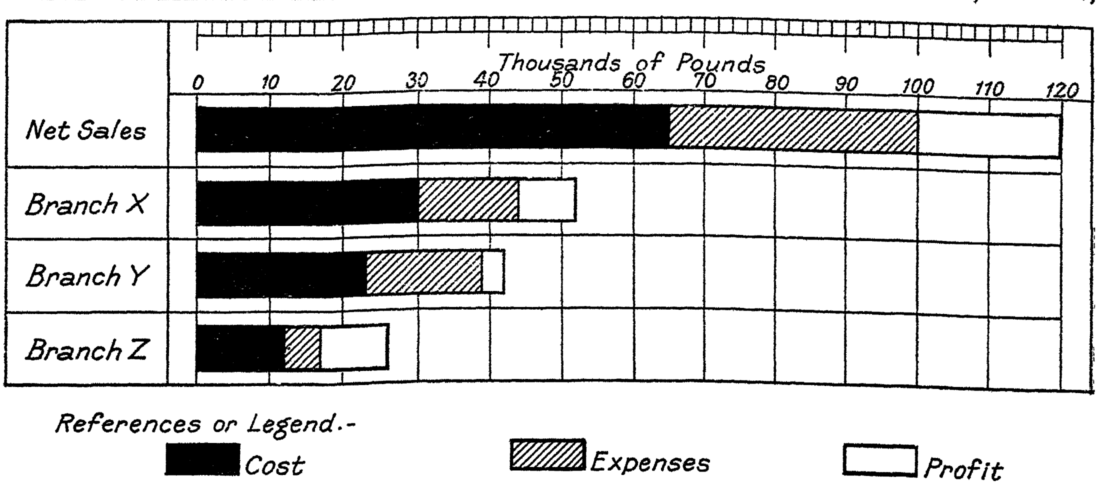


DIAGRAM 10

COMPARISON OF COST, EXPENSES, AND PROFIT OF BRANCH SALES

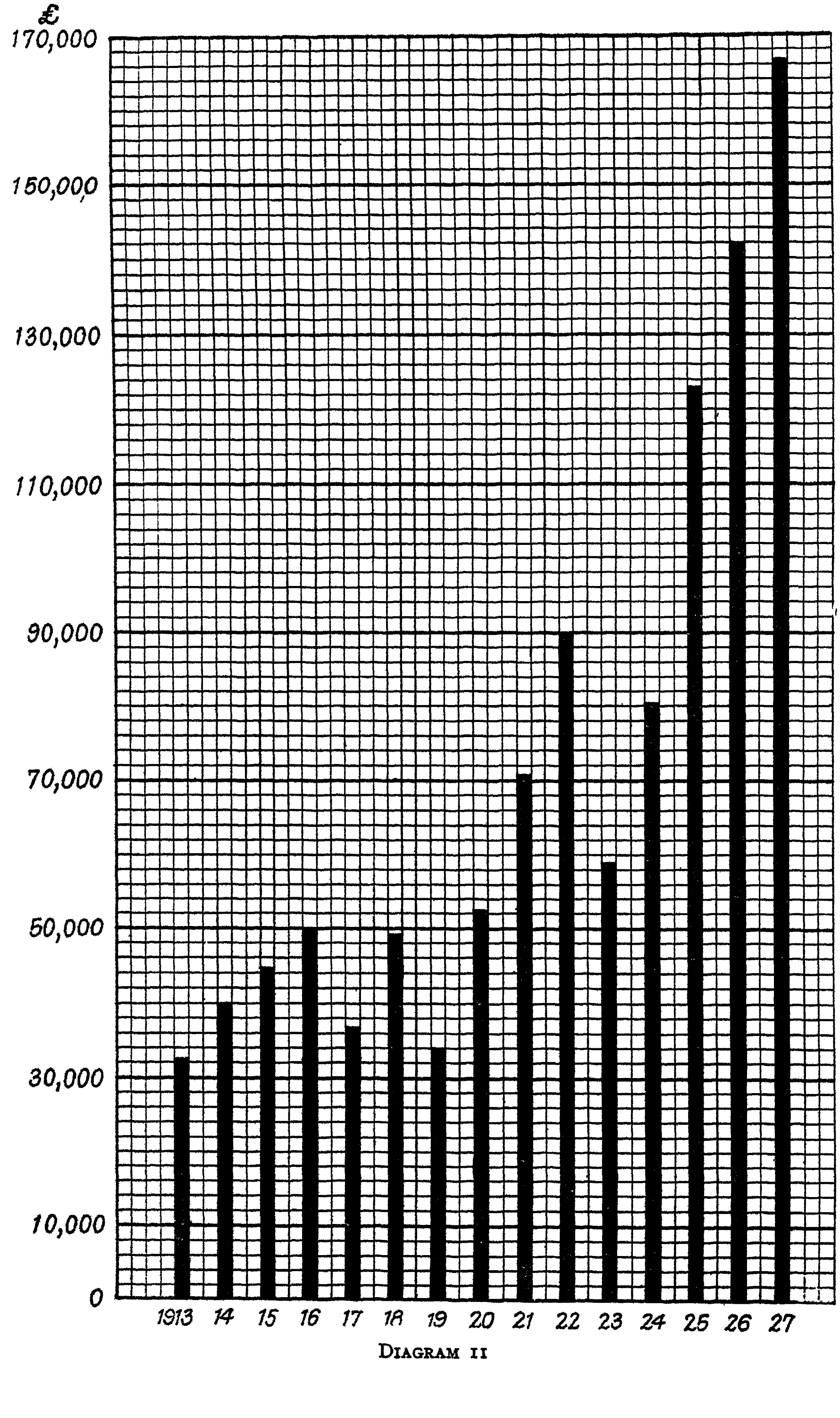

£
170,000
150,000
130,000
110,000
90,000
70,000
50,000
30,000
10,000
0
1913
14
15
16
17
18
19
20
21
22
23
24
25
26
27

DIAGRAM II

dotted line, etc., are spoken of as the " Legend." The cross-hatching in their diagrams is also very ingenious and spectacular.

Block Diagrams

The block diagram which derives its name from its form, is sometimes used to show each year's turnover for a period of years. It is, however, not so easy to read as the bar diagram, owing to the fact that some of the vertical and horizontal lines are obscured. A comparison of the diagram on this page with that of the bar diagram on page 442 will reveal at once the superiority of the bar diagram.

In the diagram on this page, one square has been taken to represent £4,000 ; half a square will represent £2,000 ; one-quarter, £1,000 ; and one-eighth, £500. Each fifth line will, therefore represent, vertically, £20,000.

Pictograms

The word " pictogram " is used to denote any form or type of picture chart or diagram used for the purpose of show, with a view to appealing to popular understanding. Thus, to enable a person to understand the difference in exports during two or three years, bales of goods of varying sizes are drawn, and the respective figures marked on them. To show the progress in house building for a series of years, drawings of houses of varying size are shown, and the figures marked at their side, and the respective years marked on the top. Silhouettes of soldiers of varying height are shown to represent the size of the various armies of Europe ; and so on. In this chapter, however, we are concerned only with the book-keeping and accounting aspect of statistics and diagrams, and we need not dwell further on this particular kind of diagram.

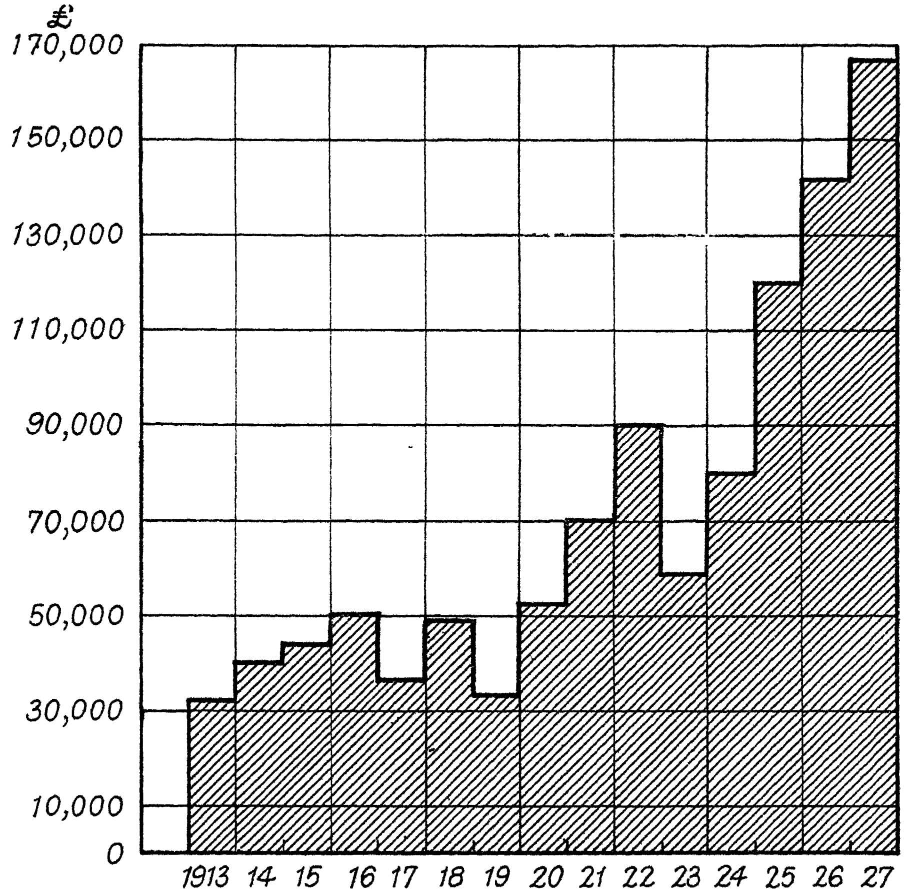


DIAGRAM 12

Rectangle Diagrams

Rectangular diagrams are also used to illustrate costs and expenditure, and for comparison of various items Let us suppose that it is required to draw diagrams for illustration and comparison of items in the following statement—there must be no question of area or volume involved.

For the purpose of the first diagram, (No. 13), we may condense the items and approximate the figures as shown at the bottom of the previous column.

STATEMENT OF ELECTRICITY PRODUCTION

	Year 1926				Year 1927			
	£	s.	d.	Per Unit (Sold) in Pence	£	s	d	Per Unit (Sold) in Pence
GENERATION								
Fuel, including Coal, Carriage, Unloading, Storing, etc.	19,257	16	3	·60	22,178	12	9	·62
Oil, Waste, and Engine Room Stores	1,274	8	6	·04	2,517	11	8	·06
Salaries and Wages at Generating and Transformer Stations	6,052	12	7	·19	7,305	15	6	·20
Repairs and Maintenance of Buildings, Engines, Boilers, Dynamos, and Plant	3,866	1	9	·12	4,519	6	9	·12
Total Generating Expenses	30,450	19	1	·95	36,521	6	8	1·00
Distribution Expenses, including Repairs and Maintenance of Mains, Meters, Apparatus, and Plant	2,476	12	8	·08	4,562	13	8	·12
Total Generating and Distribution Costs	32,927	11	9	1·03	41,084	–	4	1·12
Rent, Rates, and Taxes	4,385	10	6	·14	6,759	12	8	·18
Management Expenses, including Salaries, Stationery, Bad Debts, and Audit Fee	6,572	16	9	·20	8,624	3	6	·23
Total Expenditure	£43,885	19	–	1·37	£56,467	16	6	1·53

In using rectangular diagrams for purposes of comparison, it must be remembered that the bases are kept constant, and only the heights varied according to the figures. When linear extension is thus used in comparative diagrams, it must be for magnitudes of only *one* dimension;

STATEMENT OF ELECTRICITY PRODUCTION

	Year 1926	Year 1927
	£	£
Generating Costs	30,500	36,500
Distribution Expenses	2,500	4,600
Rent, Rates, and Taxes	4,400	6,800
Management Expenses	6,600	8,600
	£44,000	£56,500

To facilitate construction, the diagram has been prepared on graph paper, although the actual squares do not appear. One square has been taken to represent £1,000; and, on the scale line, every £2,000 has been indicated by a mark. Half a square will, of course, represent £500.

To illustrate the costs per unit, Diagram 14 has also been prepared on graph paper, although the squares are not actually shown. One square represents ·025 of a penny, two squares ·050, three squares ·075, and four squares ·1.

Charts

Where there are more than one, or even several graphs on one diagram, the latter is very often called a Chart.

Chart of Turnover and Moving Average

The table shown on page 447 will serve as material for our first illustration.

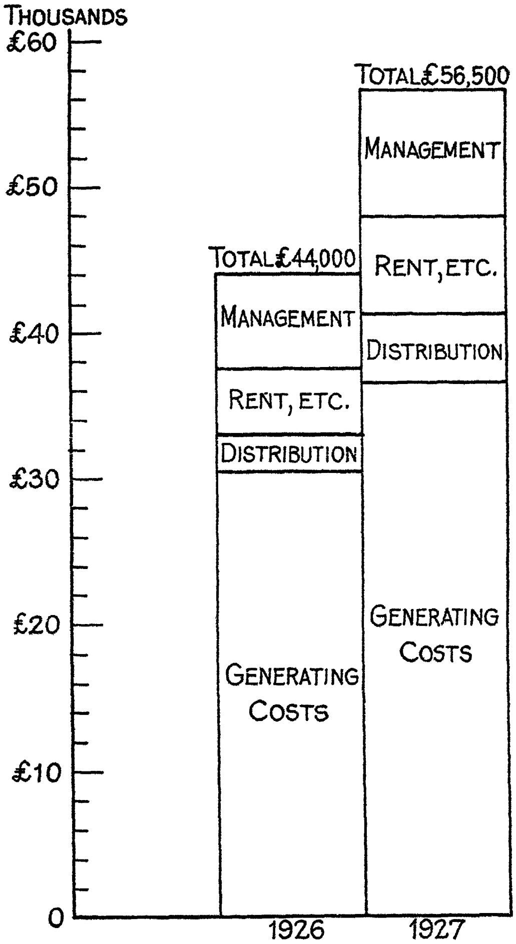


DIAGRAM 13

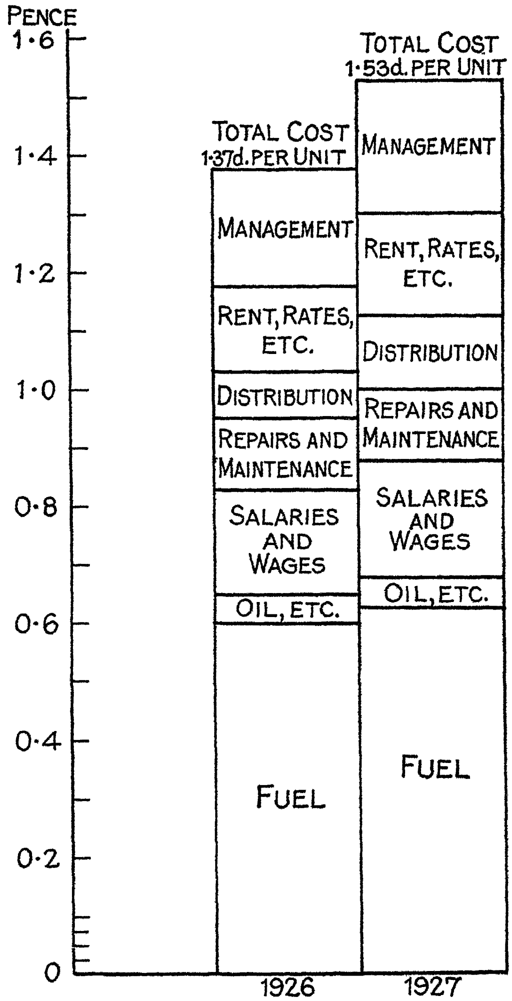


DIAGRAM 14

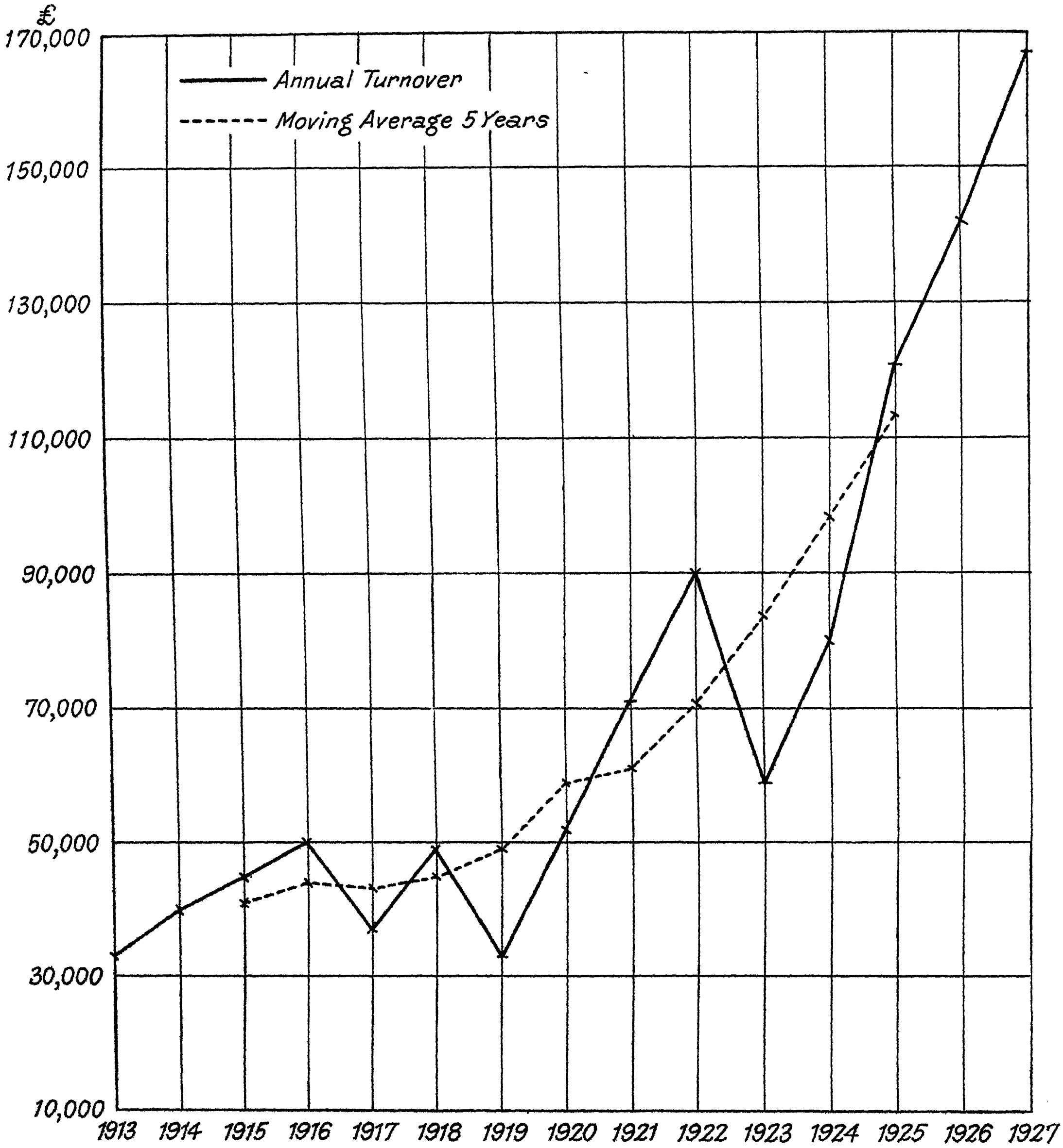

£
170,000
150,000
130,000
110,000
90,000
70,000
50,000
30,000
10,000
Annual Turnover
Moving Average 5 Years
1913
1914
1915
1916
1917
1918
1919
1920
1921
1922
1923
1924
1925
1926
1927

DIAGRAM 15

TABLE

SHOWING YEARLY TURNOVER FOR FIFTEEN YEARS AND A FIVE-YEARS' MOVING AVERAGE

Year	Turnover	Period of Years	Moving Average	Average Year
	£		£	
1913	32,500			
1914	40,000			
1915	44,500			
1916	50,000			
1917	36,500	1913–17	40,700	1915
1918	49,000	1914–18	44,000	1916
1919	33,500	1915–19	42,700	1917
1920	52,000	1916–20	44,200	1918
1921	70,500	1917–21	48,300	1919
1922	90,000	1918–22	59,000	1920
1923	58,500	1919–23	60,900	1921
1924	80,000	1920–24	70,200	1922
1925	120,500	1921–25	83,900	1923
1926	142,000	1922–26	98,200	1924
1927	166,500	1923–27	113,500	1925

The average year in a five-year's moving average is taken to be the *third* year, and in a ten-year's moving average, the *fifth* year.

In the diagram on page 446, one square has been taken to represent £2,000. Half a square will therefore represent £1,000, and one-quarter of a square will represent £500. Every tenth square, vertically, then represents £20,000.

TABLE

SHOWING GROSS PROFIT, EXPENSES, AND NET PROFIT FOR TEN YEARS

Year	Gross Profit	Expenses	Net Profit
	£	£	£
1918	6,500	2,000	4,500
1919	4,600	1,700	2,900
1920	5,500	1,900	3,600
1921	8,800	2,100	6,700
1922	6,200	1,400	4,800
1923	7,500	2,200	5,300
1924	9,300	4,400	4,900
1925	7,200	2,100	5,100
1926	6,300	1,800	4,500
1927	7,600	2,300	5,300

In the diagram on page 448, one square represents £200, and every fifth square, vertically, will represent £1,000.

TABLE

SHOWING WEEKLY SALES OF THREE DEPARTMENTS FOR ONE QUARTER

Week Ending	Total	Dept. X	Dept. Y	Dept. Z
19..	£	£	£	£
July 7	3,506	1,460	1,188	858
14	3,868	1,734	1,336	798
21	4,518	2,126	1,527	865
28	4,755	2,245	1,405	1,105
Aug. 4	3,917	1,706	1,285	926
11	4,288	1,938	1,460	890
18	4,756	2,185	1,465	1,106
25	4,044	1,822	1,336	886
Sept. 1	3,378	1,406	1,166	806
8	4,339	1,947	1,467	925
15	4,757	2,067	1,644	1,046
22	3,855	1,645	1,345	865
29	4,576	2,063	1,646	867
	£54,557	£24,344	£18,270	£11,943

In the graph, one small square represents £60, and every fifth square will represent, vertically, £300. The amounts in the Table range, in round figures, from £800 to £5,000. The graph, as shown in Diagram 17, may, therefore, be broken and start virtually at £800 Since the squares themselves are very small, we cannot divide them into smaller parts than a quarter. As one-quarter of a square will represent £15, it follows that odd amounts from £1 to £14, either above or below the number of each line, will have to be ignored. Thus, £2,067 will have to be marked in the same position as £2,060; £1,336 as £1,340; £1,527 as £1,520; £4,288 as £4,280. Again, £1,188 will have to be marked as £1,190, i.e. £1,160 plus *half* the next higher square (£30); £886 as £890, i.e. £860 plus *half* the next higher square (£30). Unless the graph is plotted on a much larger scale, it is quite impossible to be more nearly accurate than this.

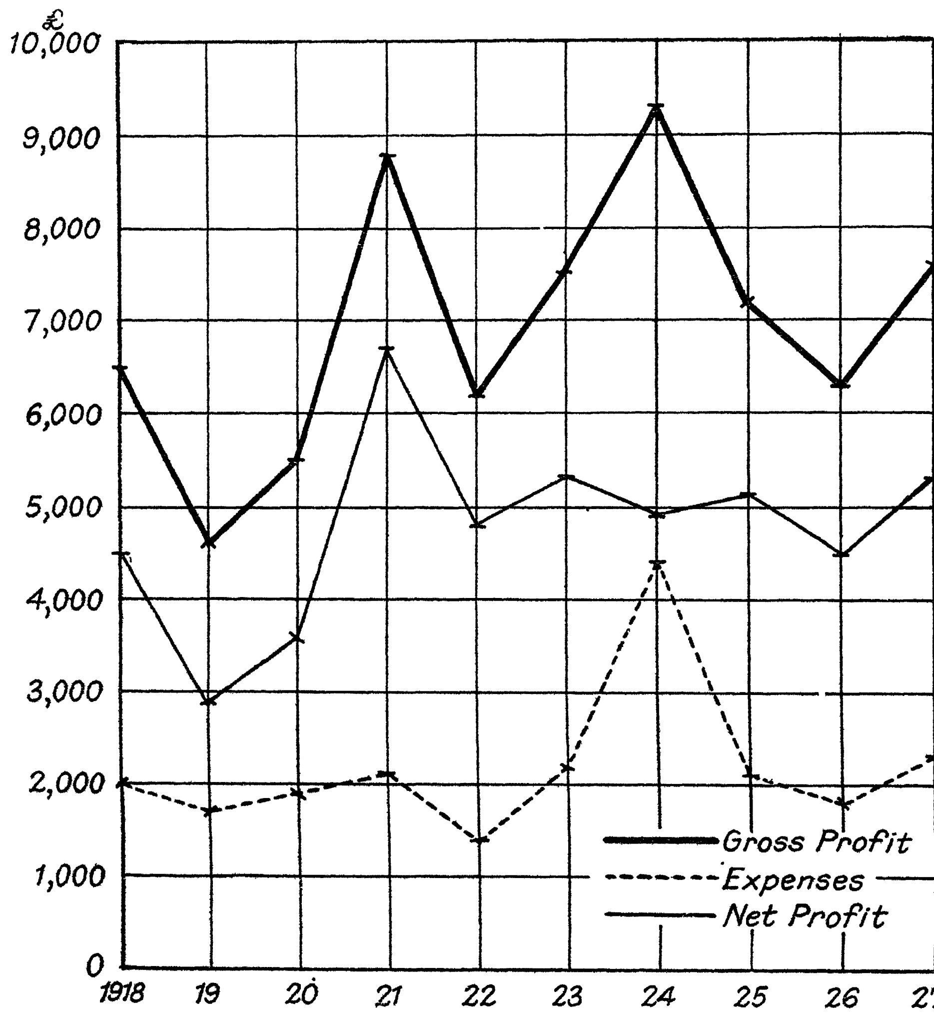


DIAGRAM 16
COMPARISON OF GROSS PROFIT, EXPENSES, AND NET PROFIT FOR TEN YEARS

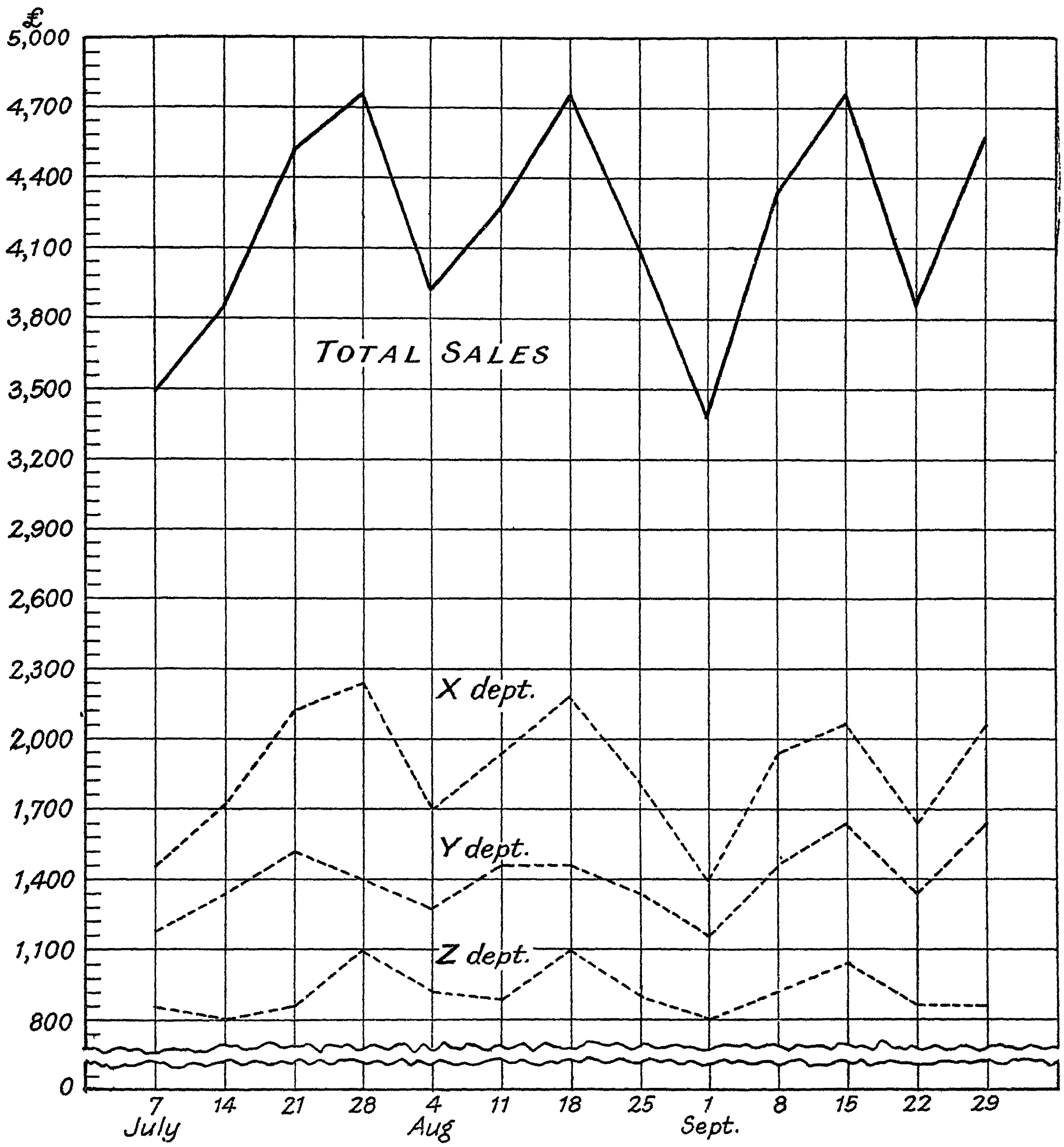

£
5,000
4,700
4,400
4,100
3,800
3,500
3,200
2,900
2,600
2,300
2,000
1,700
1,400
1,100
800
0
TOTAL SALES
X dept.
Y dept.
Z dept.
7 14 21 28 4 11 18 25 1 8 15 22 29
July
Aug
Sept.

DIAGRAM 17

CHAPTER XXXI

PARTNERSHIPS AND PARTNERSHIP ACCOUNTS

MANY of the greatest successes of commerce have resulted from the partnership of two or more men who knew exactly how to supplement each other and to take their own full share in responsibility.

On the other hand, some of the greatest catastrophes of business have resulted from partnerships. There have been cases where men who in other circumstances would have done well, by trying to pull together in double harness have merely impeded each other.

Possibly temperament is the first influence that should be realized in entering into such an alliance. There are some men who are entirely unable to be partners in any satisfactory manner. These may include the very autocratic, self-willed men who only understand playing a lone hand and who brook no interference from any one.

But more generally the secretive person is the bad partner, and the reason probably lies in the necessity of the case. One can obey or one can command a secretive person, but one cannot work on even terms with him, for when the habit is ingrained the refusal of frankness and confidence will assuredly lead to difficulties, if not to disaster.

Some of the most promising partnerships have come to grief entirely through this temperamental weakness. In one case which is typical of many, the pessimist of the firm preferred to wrestle with the financial problems alone, brooding darkly over them, but saying nothing. His partner who was neither pessimist nor optimist but a level-headed business man, was constantly in a dilemma.

"You wouldn't be so cheery if you knew that Wrights bill for £150 is being presented to-morrow" bursts the gloomy one's bombshell.

"But my dear man! Why didn't you tell me? I'd have kept my journeys up closer. Bristol is really due this week. Why didn't you tell me?"

"What is the good of discouraging two of us?" says the gloomy one "I've been eating my heart out over the Bills Payable Account.

But the sound business man would rather be discouraged, for he may be extending when he should refrain. The beginning of capital tension to him is either a warning not to overtrade or a sound reason for obtaining more capital.

The secretive person in business has usually something in reserve that tends to make the whole work impossible.

The Autocrat

Autocrats are not always bad partners, if the other man realizes his place, and can subdue his will. Many a person of quite mediocre gifts has allowed himself to be pitch-forked into prosperity through joining an autocrat.

Nor in such cases need the lesser man of the two be a mere ornament. He may be of great assistance in achieving the success of the firm.

An illustration of this was the case of a well-known business that sprang into fame some years ago, when a young man who had twice failed in his endeavours to make a stand for himself went into partnership with a man ten years his senior who had been a very junior clerk all his life, and who could hardly hold his own at that.

But the partnership was ideal. The two men esteemed each other, and worked well together. One was impatient, hot tempered, restless, brilliant, and rash. The other was of remarkably even temper and never took offence; he was very plodding and possessed unsuspected gifts of caution.

The consequence was success that continued and expanded. In all probability the brilliant man alone would have gone through life with more than one more bad break to his discredit, and the other would have remained at his humble occupation.

The erratic genius described above could, however, work with a partner, but some men of energy and vigour have not this ability. They are solo players, and are best left alone.

Employees as Partners

Some men, too, are not good partners because they cannot or will not contribute the share a partner should—not of work, but of creative management. Just as there are persons who always have the master spirit wherever they are, so also there are others who cannot acquire the master spirit. They are employees by nature,

and can only see things from the employed point of view.

Such men are usually most unsatisfactory partners, especially in the times when there are difficult problems of finance and policy.

The man, too, who regards the change from being employed to becoming a partner as a change from hard work to easy work, is usually a most undesirable partner.

In this connection it should be noted that many a man has spoiled an excellent employee by making him a partner. Equally, of course, the reverse has often happened, as in the case instanced above.

Nearly always when partnerships prove unsatisfactory it is because the two have not learned enough about each other before linking their commercial fates together.

In some of the following pages partnership is considered in the light of legal responsibility and obligations, and essential points are simply and clearly explained.

Broadly speaking, however, when partners come to that relation with each other in which legal rights must be appealed to, the chief merit of the association is lost, and dissolution is frequently the best way out.

It is wise in partnership to have a very frank and clear understanding between the parties, stated in writing and in the form of an agreement.

But there are a great many partnerships in which nothing of this sort has ever been done. Again and again two men have gone into business with each other, and though there has been an understanding between them as to how much each should draw or how the profit should be shared, not a line of writing is held by either.

There are partnerships, too, where the two contracting parties simply write each other letters agreeing to work together on certain conditions.

Such letters, originally intended to suffice until a proper deed could be drawn up have often remained the sole statements upon the subject.

In the old days businesses were sometimes started in a very loose manner. Two men working together with absolute confidence in each other have acted as partners, toiled wholeheartedly for the good of the firm, drawn what money they required, and not troubled as to who was master and who was man.

A certain famous firm is an illustration.

The firm certainly bore the name of one of the two men, but that was because he started the business, and was in danger of coming to grief till an energetic friend joined him, rounded the corner for him, and built up a huge trade.

Years afterwards the man whose name was the name traded on, having died, his sons stepped in to take his place. They were scientifically trained. They put in skilled accountants.

The accountants made appalling discoveries. The "manager" had drawn many thousands a year: more indeed than the "proprietor." There was talk of prosecution.

"Nonsense!" said the "manager." "I always drew what I wanted, because I made the business and it is worth a fabulous sum in goodwill alone. If you take any legal steps I shall claim my rights as surviving proprietor and decline to accept you as partners. Talk business and I will treat you fairly."

They talked business.

The above illustration shows that it is desirable that there should be an agreement of some kind, for in the case named a less vigorous minded man might have found himself in a very awkward position.

The Registration of Business Names Act makes it essential that the partners shall be stated so that these contingencies would not now arise.

Deed and Articles of Partnership

As mentioned above, there may be, and often are, "partnerships at will" without the existence of any deed or written agreement. In view however, of the conflicting legal interpretations of the Partnership Act, 1890, it is advisable that a Partnership Deed should be drawn up. This deed should include articles dealing specifically with the following matters—

1. The amount of capital each partner is to contribute, and whether the amount is to be fixed or not.

2. How profits and losses, including Capital profits and losses, are to be shared.

3. The amount each partner is to be allowed to draw.

4. Whether interest is to be allowed on Capital and charged on Drawings, and at what rate.

5. Whether drawings, profits and losses, and interest are to be dealt with in separate Current Accounts, or merged finally into the Capital Accounts.

6. Whether the balances of the partners' Current Accounts are to be charged or credited with interest, and what rate.

7. That a Profit and Loss Account and

Balance Sheet be drawn up each year, and audited by a professional accountant; and that such Balance Sheets be signed by all the partners and be binding on them, unless a manifest error is discovered within six months afterwards.

8. In the case of Policies of Survivorship Insurance being taken out, how the premiums are to be dealt with, and how the Policy Money is to be divided when received.

9. The method of arriving at the amount of Goodwill in the case of the death or retirement of any of the partners.

10. The method of arriving at the amount payable on the death or retirement of a partner —whether he is to be entitled to his capital, as per the last Balance Sheet, plus a higher rate of interest to date of death or retirement in lieu of profits, or whether fresh accounts are to be prepared up to date of death or retirement, and whether the partnership assets are to be re-valued for this purpose.

11. That in the event of the death of a partner, his capital should remain in the business as a loan bearing interest, and be repayable by easy instalments, so as to prevent the business being crippled by a large withdrawal of funds.

12. An Arbitration Clause, that all disputes which cannot be settled by the partners shall be submitted to arbitration.

Duration of Partnership at Will

Where no fixed term has been agreed upon for the duration of the partnership, any partner may determine the partnership at any time on giving notice of his intention so to do to all the other partners. Where the partnership has originally been constituted by deed, a notice in writing, signed by the partner giving it, is sufficient.

Prohibition of Large Partnerships

Large partnerships are forbidden by the Companies Act, for by that Act no partnership can consist of more than twenty persons to carry on any business for gain without being registered as a company. In the case of a banking business this number must not exceed ten.

Relationships which are Not Partnerships.

Not all the relationships, however, that are entered into between two or more persons are partnerships. For example, the relationship between members of any company or association which is—

(*a*) Registered as a company under the Companies Act, or any other Act of Parliament for the time being in force and relating to the registration of joint-stock companies; or

(*b*) Formed or incorporated by or in pursuance of any other Act of Parliament or letters patent, or Royal Charter; or

(*c*) A company engaged in working mines within and subject to the jurisdiction of the Stannaries,

is not a partnership within the meaning of the Act.

The reason for the third exception is not very obvious, and needs explanation. The word Stannary is derived from the Latin *Stannum*—tin. Tin is mined in this country in Devon and Cornwall, and long before the days of limited companies tin mining had its own customs and rules. Always a very hazardous and speculative adventure, it has usually attracted the support of local men whose general methods in dealing with disputes have become accepted as legal.

The Stannaries or tin mines of Devon and Cornwall have their own Court, which exercises powers that do not apply to other companies or partnerships.

Firm and Firm Name

When several persons agree to form a partnership it is necessary that there should be some indication that the business does not belong to one man. If there are only two persons in the business, their two surnames would probably be selected as the style by which they should be known to their customers.

Persons who have entered into partnership with one another are, for the purposes of the Partnership Act, called collectively a firm, and the name under which their business is carried on is called the firm-name.

By the Registration of Business Names Act, 1916, every firm having a place of business in the United Kingdom, and carrying on business under a name *which does not consist of the true surnames of all the partners*, must be registered. Particulars must be furnished of the business name, general nature of the business, principal place of business, the present Christian name and surname, any former Christian name and surname, nationality, and if that nationality is not the nationality of origin, the nationality of origin, usual residence, and the other business

occupation (if any), of each partner. The names of the partners must also appear on the note paper, catalogues, show cards, etc , issued by the firm.

Kinds of Partners

Partners are of four kinds, namely—

Acting or Active Partner, one who is actually engaged in the business.

Dormant or Sleeping Partner, one who has capital invested in the business, but who does not actually take part in it.

Limited Partner, one who is a partner under the provisions of the Limited Partnership Act.

Quasi Partner, one who has retired from active participation in the business, but who has left his capital in it as a loan, receiving interest thereon at a rate varying with the amount of the profits.

Liabilities of Incoming and Outgoing Partners

When a person enters a firm as a new partner he does not become liable to the creditors for any debts incurred before he became a partner, also when a partner retires from a firm, he does not cease to be liable for the partnership debts incurred before his retirement, but a retiring partner may be discharged from any existing liabilities if there is an agreement to that effect between himself and the other members of the firm as newly constituted, and the creditors.

This agreement may be either definitely expressed or inferred from the course of dealing between the creditors and the newly constituted firm.

"Holding Out"

If a person makes a statement that he is a partner in a firm, or allows himself to be represented as a partner when such is not the case, he becomes liable to any one who has, on the faith of such representation, given credit to the firm. It does not matter whether the representation has, or has not, been made or communicated to the person who gives the credit by the apparent partner, or even with his knowledge. If a partner dies and his name is continued in the firm name, the continued use of that name does not, of itself, make the estates or effects of the executors or administrators liable for any of the partnership debts contracted after such partner's death.

Real Test of Partnership

In determining whether a partnership does or does not exist, regard must be had to the following rules—

1. Joint tenancy, tenancy in common, joint property, common property, or part ownership does not of itself create a partnership as to anything so held or owned, whether the tenants or owners do or do not share any profits made by the use thereof.

2. The sharing of gross returns does not of itself create a partnership, whether the persons sharing such returns have or have not a joint or common right or interest in any property from which or from the use of which the returns are derived.

3. The receipt by a person of a share of the profits of a business is prima facie evidence that he is a partner in the business, but the receipt of such a share, or of a payment contingent on or varying with the profits of a business, does not of itself make him a partner in the business ; and in particular—

(*a*) The receipt by a person of a debt or other liquidated amount by instalments or otherwise out of the accruing profits of a business does not of itself make him a partner in the business or liable as such.

(*b*) A contract for the remuneration of a servant or agent of a person engaged in a business by a share of the profits of the business, does not of itself make the servant or agent a partner in the business or liable as such.

(*c*) A person being the widow or child of a deceased partner, and receiving by way of annuity a portion of the profits made in the business in which the deceased person was a partner, is not by reason only of such receipt a partner in the business or liable as such.

(*d*) The advance of money by way of loan to a person engaged or about to engage in any business on a contract with that person that the lender shall receive a rate of interest varying with the profits, or shall receive a share of the profits arising from carrying on the business, does not of itself make the lender a partner with the person or persons carrying on the business or liable as such ; provided that the contract is in writing, and signed by or on behalf of all the parties thereto.

(*e*) A person receiving by way of annuity or

otherwise a portion of the profits of a business in consideration of the sale by him of the goodwill of the business, is not by reason only of such receipt a partner in the business or liable as such.

Power of Partner to Bind the Firm

As regards the powers of partners in a firm, every partner is an agent of the firm and of his other partners for the purpose of the business of the partnership; and the acts of every partner who does any act for carrying on in the usual way, business of the kind that is carried on by the firm of which he is a member, bind the firm and his partners, unless the partner so acting has in fact no authority to act for the firm in the particular matter, and the person with whom he is dealing either knows that he has no authority, or does not know or believe him to be a partner.

Liability of Firm

Where one partner acting within the scope of his apparent authority receives the money or property of a third person and misapplies it, the firm is liable to make good the loss. This is also the case where a firm in the course of its business receives money or property of a third person, and the money or property so received is misapplied by one or more of the partners while it is in the custody of the firm.

Rights and Duties of Partners

It has been pointed out previously that when a partnership is constituted there should be made out a Deed of Partnership containing the arrangements of the partners as between themselves. When, however, a Deed of Partnership has not been made out, Sect. 24 of the Partnership Act defines the interests of partners in the partnership property, and their rights and duties in relation to the partnership by the following rules—

1. All the partners are entitled to share equally in the capital and profits of the business, and must contribute equally towards the losses whether of capital or otherwise sustained by the firm.

2. The firm must indemnify every partner in respect of payments made and personal liabilities incurred by him—

   (*a*) In the ordinary and proper conduct of the business of the firm; or,

   (*b*) In or about anything necessarily done for the preservation of the business or property of the firm.

3. A partner making, for the purpose of the partnership, any actual payment or advance beyond the amount of capital which he has agreed to subscribe, is entitled to interest at the rate of 5 per cent per annum from the date of the payment or advance.

4. A partner is not entitled, before the ascertainment of profits, to interest on the capital subscribed by him.

5. Every partner may take part in the management of the partnership business.

6. No partner shall be entitled to remuneration for acting in the partnership business.

7. No person may be introduced as a partner without the consent of all existing partners.

8. Any difference arising as to ordinary matters connected with the partnership business may be decided by a majority of the partners, but no change may be made in the nature of the partnership business without the consent of all existing partners.

9. The partnership books are to be kept at the place of business of the partnership (or the principal place, if there is more than one), and every partner may, when he thinks fit, have access to and inspect and copy any of them.

Variation of Terms of Partnership

These mutual rights and duties of partners, whether they are ascertained by agreement or defined by the Partnership Act, may be varied by the consent of all the partners, and such consent may be either definitely expressed or inferred from a course of dealing.

No majority of the partners can expel any partner, unless a power to do so has been conferred by express agreement between them.

Duties of Partners Towards the Firm

Besides having rights and duties as between themselves, the partners have duties to the firm as a whole; they are bound to render true accounts and full information of all things affecting the partnership to any partner, or to his legal representatives.

Every partner must account to the firm for any benefit derived by him, without the consent of the other partners, from any transaction concerning the partnership, or from any use by him of the partnership property, name, or business connection.

If one partner, without the consent of the other partners, carries on any business of the

same nature as, and competing with, that of the firm, he must account for, and pay over to the firm, all profits made by him in that business.

Among the matters to be dealt with in the Partnership Deed as was mentioned on page 451, was the question of the amount of capital to be introduced by the partners.

Fixed Capital Accounts

In practice, therefore, it is usual, in many cases, for the amounts of the partners' capitals to be fixed by the partnership deed, and also a statement made that they shall remain fixed. During the partnership, therefore, the Capital Accounts will remain at exactly the same figures.

A separate Current or Drawing Account is opened for each partner, and in this are entered the partner's salary, interest on capital, share of profit, and drawings, the balance of this Current Account being finally carried to the Balance Sheet. Original Capital and accumulations of undrawn profit are thus clearly separated and distinguished. The difference between this method and that in which the Capital Account is increased by profits or decreased by losses is illustrated by the worked example shown above, which represents the liabilities side of a Balance Sheet drawn up both ways.

(1) ORDINARY METHOD

LIABILITIES	£	s	d	£	s	d.
Bills Payable . . .				675	15	10
Sundry Creditors . .				2,348	12	6
Outstanding Expenses .				107	13	4
Loan Account (Price) .	1,000	–	–			
Add Interest for Half-year	25	–	–			
				1,025	–	–
Capital Accounts—						
Price, Balance, 1st Jan .	5,000	–	–			
Add Interest . .	250	–	–			
Add Share of Profit .	780	6	3			
	6,030	6	3			
Less Drawings . .	950	–	–			
				5,080	6	3
Holly, Balance, 1st Jan. .	3,000	–	–			
Add Interest . .	150	–	–			
Add Share of Profit .	468	3	9			
	3,618	3	9			
Less Drawings . .	600	–	–			
				3,018	3	9
			£	12,255	11	8

(2) FIXED CAPITAL METHOD

LIABILITIES	£	s	d.	£	s.	d.
Bills Payable . .				675	15	10
Sundry Creditors . .				2,348	12	6
Outstanding Expenses .				107	13	4
Loan Account (Price) .				1,000	–	–
Current Account (Price)—						
Share of Profit . .	780	6	3			
Interest on Capital .	250	–	–			
Interest on Loan . .	25	–	–			
	1,055	6	3			
Less Drawings . .	950	–	–			
				105	6	3
Current Account (Holly)—						
Share of Profit . .	468	3	9			
Interest on Capital .	150	–	–			
	618	3	9			
Less Drawings . .	600	–	–			
				18	3	9
Capital Accounts—						
Price	5,000	–	–			
Holly	3,000	–	–			
				8,000	–	–
			£	12,255	11	8

Partners' Advances or Loans

It sometimes happens that the firm needs additional money.

In putting such further money into the business, the partner will advance it by way of *loan* rather than *capital*; for, in the event of a dissolution, Partners' Loans are entitled to priority of repayment over Partners' Capitals. The interest on such a loan, unless drawn out in cash, should therefore be credited to the partner's Current Account, and not to his Capital Account.

Partners' Salaries

Another matter that needs to be settled by the Deed of Partnership is the question of partnership salaries. Where there are junior partners who have little or no capital in the firm, and who receive only a small share of the profits, it is usual to allow them to draw a partnership salary before ascertaining the net profit, as, otherwise, their services to the business would be insufficiently remunerated.

Partnership salaries are also customary in

cases where some of the partners devote the whole of their time to the business while others do not. These salaries are usually drawn out in cash, but sometimes they are credited to the partners' Current Accounts, according to the partnership agreement.

Interest on Capital

It also becomes necessary at times to allow interest on capital, in order to adjust the rights of partners as between themselves. Where partners share equally in the profits but have unequal capitals, the partner with the smaller capital would otherwise gain at the expense of the other; and where the partners have equal capitals but share profits unequally, the partner who takes the larger share of profits would otherwise get an advantage over the other.

The interest is credited to the partners' Capital or Current Accounts, as per the partnership agreement, and debited to an Interest on Capital Account, this latter account being closed at balancing time to the debit of Profit and Loss Account.

Interest on Drawings

In many cases, too, interest is not chargeable on drawings, the reason being that such drawings are not out of *capital*, but on account of *profits* that are accruing. Where, however, partners withdraw Capital sums, interest is charged, as the business is being deprived of the use of the money taken out.

It is also necessary to charge interest on Drawings, where partners, who are equal as regards capital and share of profits, draw out *unequal* sums, in order to adjust the rights of partners *inter se*, that is, to prevent one partner getting an advantage over the other. The interest is debited to the partner's Capital or Current Account, and credited to an Interest on Drawings Account, this latter account being closed at balancing time by transfer to the credit of Profit and Loss Account.

Partners' Drawing Accounts

It is usual in the majority of firms to keep a separate Drawing Account for each partner. The object of keeping this separate account is to prevent the Capital Account getting cumbered with a lot of detail. If a partner draws a sum once a month, that means twelve entries in the Capital Account; if he were to draw fortnightly, that would mean twenty-four entries.

EXAMPLE 1 (WITHOUT INTEREST)

Dr. O. BARNSTON—DRAWING ACCOUNT *Cr.*

		£	s.	d.			£	s.	d
19..					19..				
Mar 1	To Cash	50	–	–	Dec. 31	By Transfer to Capital Account	265	–	–
June 1	" Cash	60	–	–					
Sept. 1	" Cash	80	–	–					
Dec. 1	" Cash	75	–	–					
		£265	–	–			£265	–	–

EXAMPLE 2 (WITH 5 PER CENT INTEREST)

Dr. O. BARNSTON—DRAWING ACCOUNT *Cr.*

		Interest										
		£	s	d	£	s.	d.			£	s.	d.
19..								19..				
Mar. 1	To Cash	2	1	8	50	–	–	Dec. 31	By Transfer to Capital Account	270	9	7
June 1	" Cash	1	15	–	60	–	–					
Sept. 1	" Cash	1	6	8	80	–	–					
Dec. 1	" Cash		6	3	75	–	–					
31	" Interest				5	9	7					
					£270	9	7			£270	9	7

The great advantage of a separate Drawing Account is that it relieves the Capital Account of this unnecessary detail. At balancing time, the total Drawings for the period is all that is required in order to adjust the Capital Account for the purpose of the Balance Sheet. Typical specimens of such an account are given on page 456.

Partners' Current Accounts

In some cases, Interest on Capital, and also Share of Profits, are shown in the Drawing Account, or, as it is then more commonly called, the Current Account. This is more particularly the case when the capitals are, by the partnership deed, to be treated as *fixed* capitals. The following are typical specimens of such an account—

Example 1 (Balance in Credit)

Dr. G. BATTSEY—CURRENT ACCOUNT *Cr.*

		£	s.	d			£	s	d.
19..					19..				
Mar. 31	To Cash	85	–	–	Dec. 31	By Interest on Capital	225	–	–
June 30	,, Cash	96	–	–	31	,, Share of Profit	296	15	8
Sept. 30	,, Cash	50	–	–					
Dec. 31	,, Cash	110	–	–					
31	,, Balance c/d	180	15	8					
		£521	15	8			£521	15	8
					Dec. 31	By Balance b/d	180	15	8

Example 2 (Balance in Debit)

Dr. R. LOUPET—CURRENT ACCOUNT *Cr.*

		£	s	d			£	s.	d.
19..					19..				
Mar. 31	To Cash	95	–	–	Dec. 31	By Interest on Capital	185	–	–
June 30	,, Cash	80	–	–	31	,, Share of Profit	143	12	4
Sept. 30	,, Cash	85	–	–	31	,, Balance c/d	21	7	8
Dec. 31	,, Cash	90	–	–					
		£350	–	–			£350	–	–
Dec. 31	To Balance b/d	21	7	8					

The credit balance shown in the first account would appear as a separate item on the liabilities side of the Balance Sheet, and would indicate an amount due *by the firm* to the partner mentioned.

The debit balance shown in the second account would appear as a separate item on the assets side of the Balance Sheet, and would indicate an amount due *by the partner* to the firm.

Goodwill

Few business terms have such a happy description as that much discussed asset " Goodwill." It is frequently the most valuable property the firm possesses, and, as such, proves the real truthfulness of its description.

Goodwill in commerce frequently arises from a kind of confidence that is touched with admiration. The sincere respect, for example, in which many of the strongly established wholesale houses of London are held by their provincial customers, partakes of this quality.

In these cases no question arises about a draught of demand being caused by vast advertising campaigns, for the firms in review are not known to the public in more than a very general way. They are the great wholesale houses whose honour and integrity are held in high esteem.

Goodwill may result from many causes. It can be—

The cumulative effect of past advertising;

Steady formation of a sound connection among solvent buyers;

Possession of premises in a position suitable for trade;

Ownership of patent rights and manufacturing secrets;

A long record of successful organization; and

The personal qualities of the members of the firm.

In nearly all these cases and in others that can be instanced, no matter what original cause inspired customers to begin to buy, "goodwill" does aptly express the continuance of that state of willingness.

Patent rights, secret processes, and monopoly powers may be exceptions to this generalization, but even here goodwill in its most social meaning has its value.

It is noteworthy, too, that many firms are realizing that to develop "goodwill" in the internal organization of a business can create commercial values.

The present movement in America, and to some degree in our own country, toward high wages; the efforts of employers to make their employees more comfortable and happy; these are indications of internal goodwill which have their repercussions upon the Trading Account and Balance Sheet, and ultimately affect the market value of the goodwill of the business.

Nature

The term "Goodwill" has received various legal definitions—"The benefit arising from connection and reputation"; "Nothing more than the probability that the old customers will resort to the old place."

Looked at from another point of view, it represents the value of the ability of a business to earn surplus profit after charging interest on the capital employed, and allowing for a management salary in case the proprietor should not wish to manage it himself.

The goodwill may arise from the name of the business, as in the case of a bank; from the reputation of the article sold, as in the case of well-known proprietary articles; from the actual situation of the business, as in the case of a theatre; from the personality of the proprietor, as in the case of a doctor's practice; or from monopoly trade-marks, patents, etc.

Valuation

Goodwill may have to be taken into consideration on the death of an existing partner, or the admission of a new one, and also on the sale of the business.

For the purpose of sale, the value of the goodwill is taken to be from one to five years purchase of the average net profits for a period of years, though, in a retail business, it is often based on the turnover.

Again, in many cases, the goodwill is worth just as much as can be got for it. The buyer looks at the probable future profits, and only uses past profits to enable him to form some rough idea. Trade is affected by so many considerations, that there is no guarantee that good profits will be maintained, or that poor profits will be repeated. Between the profits of fat years and lean years, there is often a big gap; so that only an average over a series of years is of any real use.

Again, in some cases, the amount of capital employed in the business may be a deciding factor in appraising the goodwill. If a big profit can be made by a relatively small capital, then the goodwill is all the more valuable; for there is less capital to invest, and therefore less to lose. As will be realized from the above, the value of the goodwill is governed by so many circumstances that no general rule can be laid down.

Goodwill and Incoming Partners

When the number of partners in a business is being increased the incoming partner usually has to pay a premium for goodwill. The method of treating this premium in the books of account varies considerably. Sometimes a Goodwill Account is opened and debited, the amount being credited to the old partners in the proportions in which they share profits.

In some cases the premium is paid to the old partners direct by means of a separate cheque, and therefore does not appear in the partnership books at all. It is, however, to the advantage of the incoming partner that the premium should appear in the partnership books, in order that there may be a permanent record of it, as it would thus facilitate matters if he should retire and request payment to himself of a like sum.

In other cases, the premium is paid into the business, but is drawn out again by those partners entitled to divide it; while in other cases, the premium is paid into the business

and left there, being posted to the credit of the old partners' Capital Accounts in agreed proportions. It is also to the advantage of the new partner that the premium he pays shall be left in the business, so that the business shall derive some benefit from such additional cash.

The following three examples will illustrate the above methods.

Worked Example (1)

P. Reeve and C. Delf are in partnership sharing profits and losses in the proportion of two-thirds and one-third respectively.

They agree to admit A. Beathe as a partner, on 25th April, with a fifth share on condition that he brings in £1,800 Capital. As he cannot bring in any more cash by way of premium, it is arranged that the old partners shall be credited with their respective shares of the goodwill valued at £1,000.

Reeve and Delf are to share profits and losses in the same ratio as before.

It is desired to make the necessary entries in the books, and to ascertain the partners' respective proportions of future profits.

As the amount of the Goodwill was credited

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			Dr £	s.	d.	Cr. £	s.	d.
19..								
April 25	Goodwill Account		1,000	–	–			
	To P. Reeve					666	13	4
	,, C Delf					333	6	8
	For their respective Shares of the Goodwill as per Agreement							

Dr. CASH BOOK Cr.

Date	Receipts	Bank £	s.	d.	Date	Payments	Bank £	s.	d.
19..					19..				
April 25	To A. Beathe (Capital Account)	1,800	–	–					

As Beathe takes one-fifth of the profits, four-fifths will remain, and the partners' shares will be as follows—

Reeve will receive $\frac{2}{3}$rds of $\frac{4}{5}$ths or $\frac{8}{15}$ths.
Delf ,, ,, $\frac{1}{3}$rd of $\frac{4}{5}$ths or $\frac{4}{15}$ths.
Beathe ,, ,, $\frac{1}{5}$th or $\frac{3}{15}$ths.

Suppose, for the sake of illustration, the Goodwill to be subsequently written off, thus—

to *two* partners but written off against *three*, it follows that the old partners will gain by the process. As a matter of fact, it can be seen that Reeve gains £133 6s. 8d., while Delf gains £66 13s. 4d. These two amounts just equal the sum to the debit of Beathe's account; and £200 is probably the sum that Beathe would have been asked to pay as a premium had he been able to contribute further cash. This method shows, therefore, that the old partners have gained the

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			Dr. £	s.	d	Cr. £	s.	d.
19..								
	P. Reeve, Capital Account		533	6	8			
	C. Delf, Capital Account		266	13	4			
	A Beathe, Capital Account		200	–	–			
	To Goodwill Account					1,000	–	–

desired sum at the expense of the new partner, even though the partner was not able to pay the premium in money.

Worked Example (2)

G. Block and R. Carpe are in partnership sharing profits and losses two-thirds and one-third respectively. They agree to admit D. Gilder as a partner, on condition that he brings into the business as Capital £2,000, and in addition pays a sum of £250 as premium for a share in the Goodwill.

It is desired to show the entries in the books for the various ways in which the premium may be dealt with.

CASE 1. A SEPARATE CHEQUE GIVEN FOR THE PREMIUM

Dr. CASH BOOK *Cr.*

Receipts	Bank £	s.	d.	Payments	Bank £	s.	d.
To D. Gilder (Capital Account) . .	2,000	–	–				

CASE 2 THE PREMIUM REMAINS IN THE BUSINESS

Dr. CASH BOOK *Cr.*

Receipts	Bank £	s.	d.	Payments	Bank £	s.	d.
To D. Gilder (Capital Account) . .	2,000	–	–				
,, G. Block (Capital Account) . .	166	13	4				
,, R. Carpe (Capital Account) . .	83	6	8				

CASE 3. THE PREMIUM IS DRAWN OUT

Dr. CASH BOOK *Cr.*

Receipts	Bank £	s	d	Payments	Bank £	s.	d.
To D. Gilder (Capital Account) . .	2,000	–	–	By G. Block (Drawing Account) . .	166	13	4
,, G. Block (Drawing Account) . .	166	13	4	,, R. Carpe (Drawing Account) . .	83	6	8
,, R. Carpe (Drawing Account) . .	83	6	8				

Worked Example (3)

F. Glib agrees to admit A. Julp into partnership on the following terms: (*a*) That Julp brings £2,520 Capital in Cash into the business; (*b*) that £520 is to be paid out to F. Glib, and is to appear in the books of the partnership as Goodwill.

It is desired to show the necessary entries in the books of the partnership.

Dr. CASH BOOK *Cr.*

Receipts	Bank £	s	d	Payments	Bank £	s	d.
To A. Julp (Capital Account)	2,520	–	–	By Goodwill Account (Amount Paid out to F Glib by way of Premium)	520	–	–

F. Glib thus gets the use of £520 in cash; but when the Goodwill is written off, he will have to bear part of such loss. His real gain, therefore, is only a part of the £520.

Amalgamation of Businesses

It often happens, when a new partner is admitted, that one of the conditions of the amalgamation is that the assets of the business are to be revalued, any appreciation or depreciation being adjusted in the Capital Accounts of the old partners. A new partner may also have a business of his own and consequently be able to bring into the partnership other assets besides Cash, namely Book Debts, Plant, etc., and the Goodwill of his own connection. In such an amalgamation, Journal entries must be made to adjust the assets and capital accounts of the partners in each business. The books are then closed and an adjusted Balance Sheet for each business is made out. These Balance Sheets are then combined and the books of the new firm are opened with the balances according to the new Balance Sheet.

Worked Example

R. Fillet and B. Oliver are partners in a coal business, sharing profits and losses equally. On 31st March, 19.., their Balance Sheet was as shown below.

They agree to take C. Pomp into partnership as and from 1st April, 19.. on the following terms—

Profits and losses to be shared, Fillet two-fifths, Oliver two-fifths, and Pomp one-fifth.

Pomp is to bring into the business Sundry Debtors amounting to £846 10s. 6d. (less a Reserve of 5 per cent for Bad Debts), and the Goodwill of his connection, valued at £500. His Capital in the business is to be £2,000, the balance of which he is to pay in in Cash on 1st April.

BALANCE SHEET

Liabilities	£	s.	d.	Assets	£	s.	d.
Bills Payable	968	11	3	Cash in hand	66	2	11
Sundry Creditors	1,165	14	9	Cash at Bank	1,279	4	10
Capital Accounts—				Sundry Debtors	4,746	15	7
R. Fillet	3,457	3	2	Stock of Coal	870	12	6
B. Oliver	3,290	4	2	Coal Trucks	780	10	7
				Carts, Horses and Plant	862	11	8
				Furniture and Fittings	275	15	3
	£8,881	13	4		£8,881	13	4

It was also agreed between them that the following adjustments should be made as regards the business of Fillet and Oliver—coal trucks to be taken at £850 15s. 6d., and carts, plant, and horses at £920 10s. 6d., the values placed on them by a public valuer; a Bad Debts Reserve of 5 per cent to be created on the Sundry Debtors; the Goodwill to be valued at £1,500; and Fillet to be paid out from the Bank balance such a sum as will reduce his Capital to the same amount as Oliver's.

It is desired to make the necessary entries to carry out the above agreement, and to show the Balance Sheet of the new firm prior to commencing business.

IN FILLET AND OLIVER'S BOOKS

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		Dr. £	s.	d.	Cr. £	s.	d.
19.. Mar. 31	Sundry Debtors	846	10	6			
	Goodwill	500	–	–			
	To Bad Debts Reserve				42	6	6
	,, C. Pomp (Capital Account)				1,304	4	–
	For Assets brought in by C Pomp, *less* a Reserve of 5 per cent for Bad Debts.						
31	Coal Trucks	70	4	11			
	Carts, Plant, and Horses	57	18	10			
	Goodwill	1,500	–	–			
	To Bad Debts Reserve				237	6	9
	,, R. Fillet (Capital Account)				695	8	6
	,, B. Oliver (Capital Account)				695	8	6
	For Net Gain to Fillet and Oliver on the Revaluation of their Assets.						

Dr. CASH BOOK Cr.

Receipts	Bank £	s	d.	Payments	Bank £	s.	d.
To Balance	1,279	4	10	By R. Fillet, Capital Account (Amount Withdrawn by him to Reduce his Capital £4,152 11s. 8d. to the same Amount as B. Oliver's, £3,985 12s. 8d.)	166	19	–
,, C. Pomp, Capital Account (Amount Paid in by him to Raise his Capital from £1,304 4s. to £2,000)	695	16	–				

BALANCE SHEET AS AT 1ST APRIL, 19..

LIABILITIES	£	s.	d.	ASSETS		£	s.	d.
Bills Payable	968	11	3	Cash in hand		66	2	11
Sundry Creditors	1,165	14	9	Cash at Bank		1,808	1	10
Capital Accounts—				Debtors	£5,593 6 1			
R. Fillet	3,985	12	8	*Less* Reserve	279 13 3			
B. Oliver	3,985	12	8			5,313	12	10
C. Pomp	2,000	–	–	Stock of Coal		870	12	6
				Coal Trucks		850	15	6
				Carts, Plant, and Horses		920	10	6
				Furniture and Fittings		275	15	3
				Goodwill		2,000	–	–
£	12,105	11	4	£		12,105	11	4

Guarantee of Assets and Liabilities—Preferential Claim on First Year's Profits

It frequently happens that an incoming partner requires the assets and liabilities, as shown by the firm's Balance Sheet, to be guaranteed, in order to protect himself against errors that may afterwards be discovered. Should a liability have been omitted or under-estimated, the loss arising from it would not then be borne by the new partnership, but wholly by the old partners.

Should Discounts and Bad Debts arise in connection with the debtors in excess of what has been provided for, the new partner will not, therefore, share in such losses, which will be debited to the old partners' Capital Accounts, and not to the Profit and Loss Account of the new partnership.

On the other hand, there are sometimes profits accruing on work-in-progress, or orders-in-hand, which the old partners justly require to be reserved wholly for themselves. Such profits will, therefore, be credited, in their proper proportions, to the Capital Accounts of the old partners, and not to the Profit and Loss Account of the new partnership. In some cases, however, an arrangement is made whereby the old partners become, in respect of such accruing gains, entitled to a preferential claim, either of a fixed amount, or a fixed percentage, of the first year's profits.

Valuation of Goodwill on Dissolution of a Partnership

When a partnership business is sold as a going concern, the amount obtained for the Goodwill will be a profit on dissolution, and will be divisible among the partners in the same proportion as they share ordinary trading profits.

On the death or retirement of a partner, his share of the Goodwill has to be valued, and the amount is arrived at in accordance with the provisions of the partnership deed; or if no arrangement has been made, then the Goodwill of the firm is valued, and of this amount a proportion, the same in which he shares profits, is then credited to the said partner's Capital Account. Instead of the partner's share of the Goodwill, an annuity, or a percentage of the profits for a number of years, is sometimes paid to the deceased partner's legal representatives.

Policies of Survivorship Assurance

Partners often assure themselves either jointly or severally as a means of obtaining the necessary cash to pay out a deceased partner's share of the Capital and Goodwill. This prevents any financial difficulty when such a necessity arises.

The premiums paid are debited to Profit and Loss Account as a business expense, and on the death of a partner, the cash received for the policy is debited in the Cash Book, and credited to the partners' Capital Accounts (including the account of the deceased partner), in the same proportions as they share profits. The cash is then in hand with which to make the required payment. The example following will show the procedure.

Worked Example.

F. Groves and L. Crake are in partnership, sharing profits and losses three-fifths and two-fifths respectively. In order to provide money for repayment of their share of the Capital and Goodwill in the event of death, they assure their lives jointly for £9,000, paying an annual premium of £350, which is debited to the firm's Profit and Loss Account each December. Crake dies on the 30th June, 19...

The partnership deed provides that his legal representatives are to receive his Capital, as per the last Balance Sheet, plus Interest at 5 per cent per annum to date of death; and also his share of profits to date of death, estimated according to the profits of the preceding year.

They are also to receive, as his share of the Goodwill, an amount estimated at two years' purchase of the average net profits of the last three years, before charging the insurance premiums. The net profits for the last three years, after charging the insurance premiums, were £2,550, £2,962, and £2,513 respectively. Crake's Capital, as per last Balance Sheet, was £2,728, and his Drawings to date of death amounted to £750.

It is desired to draw up Crake's Account, in accordance with the foregoing agreement and particulars, and to show the amount payable to Crake's legal representatives.

The Goodwill is arrived at thus—

Average profit for the last three years *before* charging the insurance premiums = (£2,900 + £3,312 + £2,863 ÷ 3) = (£9,075 ÷ 3) = £3,025.

Total Goodwill on basis of two years' purchase of the average net profits = (£3,025 × 2) = £6,050.

Crake's share of Goodwill = $\frac{2}{5}$ of £6,050 = £2,420.

Dr. CASH BOOK *Cr.*

Receipts	Bank £	s.	d.	Payments	Bank £	s.	d.
To Assurance Policy—							
F Groves (Capital Account)	5,400	–	–				
L. Crake (Capital Account)	3,600	–	–				
	£9,000	–	–				

Dr. L. CRAKE (DECEASED) *Cr*

19..		£	s.	d.	19..		£	s.	d.
June 30	To Drawings	750	–	–	Jan 1	By Balance	2,728	–	–
30	,, Balance c/d	8,568	16	–	June 30	,, Interest on above for 6 months at 5% per annum	68	4	–
					30	,, Share of Profit for 6 months (½ of ⅗ of £2,513)	502	12	–
					30	,, Share of Goodwill	2,420	–	–
					30	,, Cash (Share of Assurance Policy)	3,600	–	–
		£9,318	16	–			£9,318	16	–
					June 30	By Balance b/d	8,568	16	–

Repayment of Partner's Share by Instalments

Sometimes on the death or retirement of a partner, his share of the Capital, Profits, and Goodwill may, instead of being paid out immediately to his representatives, be treated as a loan, bearing interest at an agreed rate, and be repayable by fixed annual instalments.

Worked Example

Let us assume that, in the previous example, L. Crake's share of Capital, Profits, and Goodwill, amounting to £8,568 16s., is payable by annual instalments of £1,600, with interest at 5 per cent per annum on the unpaid balance. The Ledger Account for Crake would appear as shown on page 465.

Repayment of Outgoing Partner's Share with Interest from Date of Realization of Assets

Although, by law, interest ceases at the date of dissolution, yet it frequently happens that the continuing partner agrees to pay the outgoing partner his share by instalments, with interest as and from the date of realization of the assets. In some cases the average date is ascertained, and interest calculated from this date. The account then takes the form of an Account Current, as in the following example.

Worked Example

G. Legge and F. Dimple are in partnership sharing profits and losses equally. Legge agrees to buy out Dimple, and the position of affairs on this date (1st Jan., 19..) is shown on page 465.

Legge is to take over the office furniture at £200, to allow Dimple £580 for his share of the Goodwill, and to pay him his proportion as and when realized, interest to be brought into account at the rate of 5 per cent per annum.

A loss of £152 12s. 6d. is sustained on the Sundry Debtors, and a discount of £35 15s. 2d. is obtained from the creditors. The latter were paid at an average date of *four* months, and the debtors were realized at an average date of *eight* months from the date of dissolution. Legge

Dr L. CRAKE (DECEASED), LOAN ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash (6 months)	800	–	–	1	By Balance	8,568	16	–
	,, Balance c/d	7,983	–	5		,, Interest (6 months)	214	4	5
		£8,783	–	5			£8,783	–	5
2	To Cash	1,600	–	–	2	By Balance b/d	7,983	–	5
	,, Balance c/d	6,782	3	5		,, Interest (1 year)	399	3	–
		£8,382	3	5			£8,382	3	5
3	To Cash	1,600	–	–	3	By Balance b/d	6,782	3	5
	,, Balance c/d	5,521	5	7		,, Interest (1 year)	339	2	2
		£7,121	5	7			£7,121	5	7
4	To Cash	1,600	–	–	4	By Balance b/d	5,521	5	7
	,, Balance c/d	4,197	6	10		,, Interest (1 year)	276	1	3
		£5,797	6	10			£5,797	6	10
5	To Cash	1,600	–	–	5	By Balance b/d	4,197	6	10
	,, Balance c/d	2,807	4	2		,, Interest (1 year)	209	17	4
		£4,407	4	2			£4,407	4	2
6	To Cash	1,600	–	–	6	By Balance b/d	2,807	4	2
	,, Balance c/d	1,347	11	5		,, Interest (1 year)	140	7	3
		£2,947	11	5			£2,947	11	5
7	To Cash	1,414	19	–	7	By Balance b/d	1,347	11	5
		£1,414	19	–		,, Interest (1 year)	67	7	7
							£1,414	19	–

BALANCE SHEET OF MESSRS. LEGGE AND DIMPLE

Liabilities	£	s.	d.	Assets	£	s.	d.
Sundry Creditors	1,650	17	8	Cash	1,426	10	5
Capital Accounts—				Sundry Debtors	5,141	4	7
G. Legge	3,092	16	10	Furniture and Fixtures	268	16	4
F. Dimple	2,092	16	10				
	£6,836	11	4		£6,836	11	4

paid Dimple £600 on 1st March, £600 on 1st June, £600 on 1st September, and the balance on 31st December.

It is desired to draw up the Account Current between Legge and Dimple, and to show the final payment made to Dimple on 31st December.

Dr. PROFIT AND LOSS ADJUSTMENT ACCOUNT *Cr.*

Date	Items	£	s.	d.	Date	Items	£	s.	d.
19..					19..				
Dec. 31	To Bad Debts (Loss)	152	12	6	Dec. 31	By Discount on Creditors (Gain)	35	15	2
31	,, Furniture (Loss)	68	16	4	31	,, Capital Accounts (Net Loss)			
						Legge, ½	92	16	10
						Dimple, ½	92	16	10
		£221	8	10			£221	8	10

ADJUSTED BALANCE SHEET AS AT 31ST DECEMBER, 19..

Liabilities	£	s.	d.	Assets	£	s.	d.
Sundry Creditors	1,615	2	6	Cash	1,426	10	5
Capital Accounts—				Sundry Debtors	4,988	12	1
G Legge	3,000	–	–	Office Furniture	200	–	–
F. Dimple	2,000	–	–				
	£6,615	2	6		£6,615	2	6

Dr. F. DIMPLE IN ACCOUNT CURRENT WITH G LEGGE *Cr*

Date	Items	Amount £	s	d	Days	Products
19..						
Mar. 1	To Cash	600	–	–	305	183,000
May 1	,, Sundry Creditors ($\frac{2}{5}$ of £1,615 2s. 6d.)	646	1	–	244	157,624
June 1	,, Cash	600	–	–	213	127,800
Sept. 1	,, Cash	600	–	–	121	72,600
Dec. 31	,, Balance of Products					148,455
31	,, Balance c/d	800	6	9		
		£3,246	7	9		689,479
Dec. 31	To Cash	800	6	9		

Date	Items	Amount £	s.	d	Days	Products
19..						
Jan. 1	By Office Furniture ($\frac{2}{5}$ of £200)	80	–	–	364	29,120
1	,, Cash ($\frac{2}{5}$ of £1,426 10s. 5d)	570	12	2	364	207,844
1	,, Goodwill	580	–	–	364	211,120
Sept. 1	,, Sundry Debtors ($\frac{2}{5}$ of £4,988 12s. 1d	1,995	8	10	121	241,395
Dec 31	,, Interest on Balance of Products— $\frac{148,455 \times 10}{73,000}$	20	6	9		
		£3,246	7	9		689,479
Dec 31	By Balance b/d	800	6	9		

Legge Owes Dimple as follows—

	£	s.	d.
Capital	2,000	–	–
Goodwill	580	–	–
Interest	20	6	9
	£2,600	6	9

He Pays as follows—

	£	s.	d.
Mar. 1. Cash	600	–	–
June 1. Cash	600	–	–
Sept. 1. Cash	600	–	–
Dec. 31. Cash	800	6	9
	£2,600	6	9

Although Legge and Dimple share profits and losses, including profits and losses on realization of the assets, *equally*, yet the actual assets themselves, as per the Balance Sheet, belong to the partners in the proportion that their capitals bear to the total capital, namely three-fifths and two-fifths respectively.

Repayment of Outgoing Partner's Share by Means of an Annuity

In other cases on the death or retirement of a partner, his share of the Capital and Goodwill is paid out by means of an annuity for a limited number of years, or for his lifetime, or for the joint lives of himself and wife.

In such cases the total amount due will be credited to a separate account in the name of the annuitant. This account will be credited each year with interest at an agreed rate on the diminishing balance, and debited each year with the payment of the annuity. The amount of the latter will be ascertained from Annuity Tables.

If before the expiration of the annuity, this account is extinguished, all future payments of the annuity will be debited to Profit and Loss Account as a sustained loss.

On the other hand, if the annuity terminates before this credit sum is exhausted, the balance will be transferred to Profit and Loss Account as a realized gain. Until the account is finally closed, the balance of it will appear each year on the liabilities side of the Balance Sheet. Alternatively, the gain mentioned above may be used to reduce the balance of the Goodwill Account.

Dissolution of Partnership

In addition to the cases previously mentioned of one partner retiring, the whole partnership is dissolved, unless the members of the partnership themselves decide otherwise, in the following circumstances—

(*a*) If the partnership was entered into for a fixed term, by the expiration of that term.

(*b*) If entered into for a single adventure or undertaking, by the termination of that adventure or undertaking.

(*c*) If entered into for an undefined time, by any partner giving notice to the other or others of his intention to dissolve the partnership.

In the last case, the partnership is dissolved as from the date stated in the notice as the date of dissolution. If no date is mentioned the partnership is dissolved as from the date of the communication of the notice.

Dissolution by Bankruptcy, Death, Charge, or Illegality

Unless there is any agreement to the contrary, every partnership is dissolved as regards all the partners if any one partner dies or is made bankrupt. This is also the case if a partner allows his share of the partnership property to be charged for his separate debt, although, of course, the other partners may decide to continue. If an event occurs that makes it unlawful for the business to be carried on, or for the members of the firm to carry on the business then also the partnership is dissolved.

Dissolution by the Court

There are also special cases in which the partnership may be dissolved, when application is made, by the Court. These are—

(*a*) When a partner is found to be insane or is shown to the satisfaction of the Court to be of an unsound mind.

(*b*) When a partner becomes incapable of performing his part of the partnership contract.

(*c*) When a partner has been guilty of such conduct that is considered to affect the carrying on of the business in a prejudicial manner, regard being paid to the nature of the business.

(*d*) When a partner, wilfully or persistently commits a breach or breaches of the partnership agreement or otherwise, so conducts himself that it is impossible for the other partners to remain partners with him.

(*e*) When it is possible to carry on the partnership business only at a loss.

(*f*) Whenever circumstances arise which the Court consider just and equitable to cause the dissolution of the partnership.

Notice of Dissolution or Change

When a partnership is dissolved it is necessary to notify all the customers and creditors of the firm, and in addition to publish an advertisement in the various Gazettes. If the principal place of the firm's business is in England or Wales, in the *London Gazette*; in the *Edinburgh Gazette* if the principal place of business is in Scotland; in the *Belfast Gazette* if the principal place is in Northern Ireland.

Continuing Authority of Partners for Winding-up Purposes

After the dissolution of a partnership, the authority of each partner to bind the firm, and

also the other rights and obligations of the partners, continue, despite the dissolution, in so far as it may be necessary to wind up the affairs of the partnership, and to complete transactions begun but not completed at the time of the dissolution, but not to initiate new transactions.

Rule for Distribution of Assets

When a dissolution has been decided on, it is, of course, necessary that there should be a decision between the partners as to the division of the partnership property. Usually this is embodied in the Deed of Partnership, but if not, then the rules inserted in the Partnership Act, 1890, must be followed. That is, losses, including any losses and deficiencies of capital, must be paid first out of profits, then out of capital, and lastly, if it is necessary, by the partners individually according to the proportion in which they share profits. The assets of the firm, including any sums contributed by the partners to make up losses or deficiencies of capital, must be applied firstly, in paying the debts and liabilities of the firm to persons who are not partners, that is, the creditors; secondly, in paying to the partners what is due to them for advances as distinguished from capital; thirdly, in paying to the partners what is due from the firm to them for their capital; and fourthly, if there is any residue, a payment divided among the partners in proportion as they share profits. In paying out partners' advances and capitals, if there is not sufficient to pay the whole of each item, then the members of the firm are paid proportionately.

Procedure

If the partners of a firm decide, for any of the reasons mentioned above, to dissolve the partnership, then it is usual, after all the transactions have been completed, to arrange for the sale of the assets. Sometimes a partner instead of being paid cash at the final settlement, takes some asset in part satisfaction of his claims. After the assets have been sold, the creditors will be paid the amounts which are owing to them, but if the assets do not realize sufficient to pay them and the partners have not sufficient private means, then each creditor is paid proportionately.

After the creditors claims have been settled from the assets of the firm, then the partners will receive the cash remaining, according to the state of their accounts.

Realization Account

On a dissolution occurring, a Realization Account is opened in the books, debited with the total of the assets (except Cash), and credited with the Cash received for the assets. If, however, any of the assets are not sold, but taken over by one of the partners, then such partner's Capital Account must be debited, and the Realization Account credited with the agreed amount.

The balance of the Realization Account, after debiting the expenses of winding up, will show a profit or loss, which is credited or debited to the various partners' Capital Accounts in the same proportion as a profit or loss on trading.

The balance of the Cash Book, after paying off creditors and partners' loans (if any), should exactly equal the total of the balances of the various Capital Accounts, provided they are in credit. Should, however, one or more of them be in debit, the partner or partners must repay to the firm such indebtedness either by a transfer from his Loan Account, if he has one, or by a payment of cash.

Garner v. Murray Decision

Whenever a partner is unable to repay to the firm his indebtedness, the ruling of *Garner* v. *Murray* must be applied.

This was a decision by Mr. Justice Joyce, in November, 1903, and was to the effect that the solvent partners are only liable to make good their share of the deficiency, and that the remaining assets should be divided among them in proportion to their Capitals. After considerable discussion and controversy, the majority of accountants think that " making good their share of the deficiency " means that the solvent partners must " bring in cash " to meet that deficiency.

A few examples will illustrate the book-keeping side of these matters. In the first example, it has been assumed that there has been a profit made when the assets were sold and expenses paid.

Worked Example (1)

A. Driver and C. Philme are in partnership sharing profits and losses two-thirds and one-third respectively. The state of affairs at the date of dissolution is shown on page 469.

The fixtures and fittings are taken over by Driver at the agreed price of £1,200. The Debtors and Stock realize £7,220 15s. 8d., and the expenses of realization are £115 13s. 6d.

BALANCE SHEET

Liabilities	£	s.	d.	Assets	£	s.	d.
Sundry Creditors	2,750	10	6	Cash	1,024	17	10
Capital Accounts—				Sundry Debtors	2,146	13	2
A. Driver	4,024	–	4	Stock	4,268	10	8
C. Philme	2,012	–	2	Fixtures and Fittings	1,346	9	4
	£8,786	11	–		£8,786	11	–

It is desired to close the books of the firm, showing the Ledger Accounts.

Dr. REALIZATION ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Sundry Assets	7,761	13	2	By Cash	7,220	15	8
,, Cash (Expenses)	115	13	6	,, Driver (Capital Account)—			
,, Balance (Profit)—				Fixtures Taken Over as agreed	1,200	–	–
A. Driver, $\frac{2}{3}$	362	6	–				
C. Philme, $\frac{1}{3}$	181	3	–				
	£8,420	15	8		£8,420	15	8

Dr. CASH BOOK *Cr.*

Receipts	Bank £	s.	d.	Payments	Bank £	s.	d.
To Balance	1,024	17	10	By Realization Account—			
,, Realization Account—				Expenses	115	13	6
Proceeds of Sale of Assets	7,220	15	8	,, Sundry Creditors	2,750	10	6
				,, Balance—			
				A. Driver	3,186	6	4
				C. Philme	2,193	3	2
	£8,245	13	6		£8,245	13	6

Dr. SUNDRY CREDITORS *Cr.*

	£	s.	d.		£	s.	d.
To Cash	2,750	10	6	By Balance	2,750	10	6

Dr. A. DRIVER—CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Fixtures Account	1,200	–	–	By Balance	4,024	–	4
,, Cash	3,186	6	4	,, Realization Account—			
				Share of Profit	362	6	–
	£4,386	6	4		£4,386	6	4

Dr. C. PHILME—CAPITAL ACCOUNT *Cr.*

	£	s	d.		£	s.	d.
To Cash	2,193	3	2	By Balance	2,012	–	2
				,, Realization Account—			
				Share of Profit	181	3	–
	£2,193	3	2		£2,193	3	2

In the next example, the opposite effect has been assumed, namely, a loss on realization.

Worked Example (2)

G. Limpe and F. Strong are in partnership sharing profits and losses two-thirds and one-third respectively. The following is the state of affairs at the date of dissolution.

BALANCE SHEET

Liabilities	£	s	d.	Assets	£	s.	d.
Sundry Creditors	2,618	14	2	Cash	716	8	6
Limpe—Loan Account	1,000	–	–	Sundry Debtors	2,143	11	9
Capital Accounts—				Stock	3,085	2	7
G. Limpe	2,982	18	4	Fixtures and Fittings	1,147	18	10
F. Strong	1,491	9	2	Goodwill	1,000	–	–
	£8,093	1	8		£8,093	1	8

The Debtors, Stock, Fixtures, and Fittings realize £6,788 14s. 8d., and the expenses of winding up are £120. During the realization, events actualize a contingent liability of £150, which has, therefore, to be paid in addition to the other creditors.

It is desired to close the books of the firm, showing Ledger Accounts.

Dr. REALIZATION ACCOUNT *Cr.*

	£	s.	d.		£	s	d
To Sundry Assets	7,376	13	2	By Cash (Proceeds of Sale of Assets)	6,788	14	8
,, Cash (Expenses)	120	–	–	,, Balance (Loss)—			
,, Cash (Contingent Liability)	150	–	–	G. Limpe, $\frac{2}{3}$	571	19	–
				F. Strong, $\frac{1}{3}$	285	19	6
	£7,646	13	2		£7,646	13	2

Dr. CASH BOOK Cr

Receipts	Bank £	s.	d.	Payments	Bank £	s.	d.
To Balance	716	8	6	By Realization Account—			
,, Realization Account—				Expenses	120	–	–
Proceeds of Sale of Assets	6,788	14	8	Contingent Liability	150	–	–
				,, Sundry Creditors	2,618	14	2
				,, G. Limpe (Loan)	1,000	–	–
				,, Balance—			
				G. Limpe	2,410	19	4
				F. Strong	1,205	9	8
	£7,505	3	2		£7,505	3	2

Dr. SUNDRY CREDITORS Cr.

	£	s.	d.		£	s.	d.
To Cash	2,618	14	2	By Balance	2,618	14	2

Dr. G. LIMPE—LOAN ACCOUNT Cr.

	£	s.	d.		£	s.	d
To Cash	1,000	–	–	By Balance	1,000	–	–

Dr G. LIMPE—CAPITAL ACCOUNT Cr.

	£	s.	d.		£	s.	d
To Realization Account—				By Balance	2,982	18	4
Share of Loss	571	19	–				
,, Cash	2,410	19	4				
	£2,982	18	4		£2,982	18	4

Dr. F. STRONG—CAPITAL ACCOUNT Cr.

	£	s.	d.		£	s.	d.
To Realization Account—				By Balance	1,491	9	2
Share of Loss	285	19	6				
,, Cash	1,205	9	8				
	£1,491	9	2		£1,491	9	2

It sometimes happens that owing, perhaps, to a forced sale, the assets do not realize anything like their book value, with the necessary consequence that there is a loss on the realization. In example 3 this loss is so great, comparatively speaking, that the partners have to bring in cash in order to provide sufficient money to pay off the creditors.

Worked Example (3)

B. Willott and S. Croppe are in partnership, and share profits and losses three-fifths and two-fifths respectively.

At the date of dissolution their Capitals are, Willott £675 3s. 8d., and Croppe £473 5s. 6d. The Creditors amount to £2,906 17s. 6d. The balance of Cash in hand is £165 12s. 2d.; while the other assets (book value £3,889 14s. 6d.) realize £2,660 4s. 10d. The expenses of winding up amount to £78 16s. 3d. The partners bring in cash to meet their deficits.

It is desired to close the books of the firm, showing the Ledger Accounts.

Dr CASH BOOK *Cr.*

Receipts	Bank £	s.	d.	Payments	Bank £	s.	d.
To Balance	165	12	2	By Realization Account— Expenses	78	16	3
,, Realization Account— Proceeds of Sale of Assets	2,660	4	10	,, Sundry Creditors	2,906	17	6
,, Willott, Capital Account— Cash brought in	109	15	11				
,, Croppe, Capital Account— Cash brought in	50	–	10				
	£2,985	13	9		£2,985	13	9

Dr. REALIZATION ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Sundry Assets	3,889	14	6	By Cash (Proceeds of Sale of Assets)	2,660	4	10
,, Cash (Expenses)	78	16	3	,, Capital Accounts (Loss)—			
				B. Willott, $\frac{3}{5}$	784	19	7
				S. Croppe, $\frac{2}{5}$	523	6	4
	£3,968	10	9		£3,968	10	9

Dr. SUNDRY CREDITORS *Cr.*

	£	s.	d.		£	s	d.
To Cash	2,906	17	6	By Balance	2,906	17	6

Dr. B. WILLOTT—CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Realization Account— Share of Loss	784	19	7	By Balance	675	3	8
				,, Cash	109	15	11
	£784	19	7		£784	19	7

Dr. S. CROPP—CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Realization Account— Share of Loss	523	6	4	By Balance	473	5	6
				,, Cash	50	–	10
	£523	6	4		£523	6	4

In example 3, although there is not sufficient cash to pay off the creditors the partners are able to bring in more capital in order to do so, but in example 4 there *is* sufficient to pay the creditors, but one partner is not able to bring in any more capital either to meet his share of the loss on realization or to meet the debit balance on his Capital Account. Consequently the *Garner* v. *Murray* rule must be applied.

Worked Example (4)

Bruze, Click, and Ramp are in partnership sharing profits and losses three-sixths, two-sixths, and one-sixth respectively. The state of affairs at dissolution is as follows—

BALANCE SHEET

Liabilities	£	s.	d.	Assets	£	s.	d.
Sundry Creditors	3,932	15	10	Cash	1,211	11	8
Loan Account—Bruze	320	–	–	Sundry Debtors	2,758	10	9
Capital Accounts—				Stock	1,942	3	10
Bruze	1,500	–	–	Fixtures and Fittings	865	9	7
Click	1,100	–	–	Ramp (Capital Account)— *Dr.* Balance	75	–	–
	£6,852	15	10		£6,852	15	10

The assets, other than Cash, realize £4,882 0s. 10d., and the expenses of winding up are £65 16s. 8d. Bruze and Click are solvent, but Ramp is unable to bring in anything.

It is desired to make the necessary adjustments, and to draw up a Balance Sheet showing the position of affairs before applying the *Garner* v. *Murray* ruling, and then to close the books of the firm, showing the Ledger Accounts.

Dr. CASH BOOK *Cr.*

Receipts	Bank £	s.	d.	Payments	Bank £	s.	d.
To Balance	1,211	11	8	By Realization Account—			
,, Realization Account (Proceeds of Sale of Assets)	4,882	–	10	Expenses	65	16	8
,, Deficiency Account (Cash Brought in)—				,, Sundry Creditors	3,932	15	10
Bruze	375	–	–	,, Loan Account—Bruze	320	–	–
Click	250	–	–	,, Balance c/d	2,400	–	–
	£6,718	12	6		£6,718	12	6
To Balance b/d	2,400	–	–				

REALIZATION ACCOUNT

Dr.	£	s.	d.	Cr.		£	s.	d.
To Sundry Assets	5,566	4	2	By Cash (Proceeds of Sale of Assets)		4,882	–	10
,, Cash (Expenses)	65	16	8	,, Deficiency Account (Transfer)—				
				Bruze, 3/6	£375			
				Click, 2/6	250			
				Ramp, 1/6	125			
						750	–	–
	£5,632	–	10			£5,632	–	10

SUNDRY CREDITORS

Dr.	£	s.	d.	Cr.	£	s.	d.
To Cash	3,932	15	10	By Balance	3,932	15	10

BRUZE—LOAN ACCOUNT

Dr.	£	s.	d.	Cr.	£	s.	d.
To Cash	320	–	–	By Balance	320	–	–

DEFICIENCY ACCOUNT

Dr.	£	s.	d.	Cr.	£	s.	d.
To Realization Account—				By Cash—			
Transfer of Loss	750	–	–	Bruze	375	–	–
				Click	250	–	–
				,, Balance c/d	125	–	–
	£750	–	–		£750	–	–
To Balance b/d	125	–	–				

The position of affairs, at this point, is as shown by the following statement—

BALANCE SHEET

Liabilities	£	s.	d.	Assets		£	s.	d.
Capital Accounts—				Cash		2,400	–	–
Bruze	1,500	–	–	Ramp—				
Click	1,100	–	–	Capital Account, Debit	£75			
				Share of Deficiency	125			
						200	–	–
	£2,600	–	–			£2,600	–	–

Applying the *Garner* v. *Murray* ruling, the solvent partners will receive and lose the following amounts—

Partners	Receive	Lose
Bruze	$\frac{1,500}{2,600}$ of £2,400 = £1,384 12s. 4d.	$\frac{1,500}{2,600}$ of £200 = £115 7s. 8d.
Click	$\frac{1,100}{2,600}$ of £2,400 = £1,015 7s. 8d.	$\frac{1,100}{2,600}$ of £200 = £84 12s. 4d.

And the Ledger Accounts will be as follows—

Dr. BRUZE—CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s.	d
To Transfer from Ramp's Account . .	115	7	8	By Balance	1,500	–	–
,, Cash	1,384	12	4				
	£1,500	–	–		£1,500	–	–

Dr. CLICK—CAPITAL ACCOUNT *Cr*

	£	s.	d.		£	s.	d
To Transfer from Ramp's Account . .	84	12	4	By Balance	1,100	–	–
,, Cash	1,015	7	8				
	£1,100	–	–		£1,100	–	–

Dr. RAMP—CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Balance	75	–	–	By Transfer to—			
,, Share of Firm's Deficiency . .	125	–	–	Bruze, Capital Account	115	7	8
				Click, Capital Account	84	12	4
	£200	–	–		£200	–	–

Dr. CASH BOOK *Cr.*

Receipts	Bank £	s.	d.	Payments	Bank £	s.	d
To Balance	2,400	–	–	By Capital Accounts—			
				Bruze	1,384	12	4
				Click	1,015	7	8
	£2,400	–	–		£2,400	–	–

Present Differences of Opinion re "Garner v. Murray" Decision

Many accountants do not even now admit the contention that the solvent partners must *bring in cash* to make good their share of the firm's deficiency. They point out that, in some cases, it might not be possible for the solvent partners to introduce further cash. By their method, therefore, the partners' contributions are merely *brought into account*, i.e. assumed to be part of the cash available. It makes no difference to the final result, as can be seen from the following working of the previous example.

The position of affairs after realization was as follows—

BALANCE SHEET

Liabilities	£	s.	d.	Assets	£	s.	d.
Capital Accounts—				Cash	1,775	–	–
Bruze	1,500	–	–	Ramp—			
Click	1,100	–	–	Capital Overdrawn . . .	75	–	–
				Loss on Realization . . .	750	–	–
	£2,600	–	–		£2,600	–	–

Bringing the contributions into account, the position changes to the following—

BALANCE SHEET

Liabilities	£	s.	d.	Assets		£	s.	d.
Capital Accounts—				Cash		1,775	–	–
Bruze	1,500	–	–	Bruze—Share of Deficiency, $\frac{3}{6}$ of £750 .		375	–	–
Click	1,100	–	–	Click—Share of Deficiency, $\frac{2}{6}$ of £750 .		250	–	–
						2,400	–	–
				Ramp—				
				Capital Overdrawn . . .	£75			
				Share of Deficiency . .	125			
						200	–	–
	£2,600	–	–			£2,600	–	–

The above statement fixes the amount of cash available; and this must be applied *pro rata* in repayment of the partners' Capital Accounts. Each partner will, therefore, receive the amount shown hereunder—

FINAL STATEMENT

	£	s.	d.	£	s.	d.
Amounts due to Partners in respect of Capital—						
Bruze—						
$\frac{1,500}{2,600}$ of £2,400	1,384	12	4			
Less Contribution due to Firm	375	–	–			
				1,009	12	4
Click—						
$\frac{1,100}{2,600}$ of £2,400	1,015	7	8			
Less Contribution due to Firm	250	–	–			
				765	7	8
				£1,775	–	–

The Cash Book and Capital Accounts would appear as under—

Dr CASH BOOK *Cr*

Receipts	Bank £	s	d	Payments	Bank £	s.	d.
To Balance	1,211	11	8	By Realization Account— Expenses	65	16	8
,, Realization Account (Proceeds of Sale of Assets)	4,882	–	10	,, Sundry Creditors	3,932	15	10
				,, Loan Account—Bruze	320	–	–
				,, Balance c/d	1,775	–	–
	£6,093	12	6		£6,093	12	6
To Balance b/d	1,775	–	–	By Capital Accounts—			
				Bruze	1,009	12	4
				Click	765	7	8
	£1,775	–	–		£1,775	–	–

Dr. RAMP—CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Balance	75	–	–	By Transfer to Capital Accounts—			
,, Realization Account—				Bruze, $\frac{15}{26}$	115	7	8
$\frac{1}{6}$ of Loss, £750	125	–	–	Click, $\frac{11}{26}$	84	12	4
	£200	–	–		£200	–	–

Dr. BRUZE—CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Realization Account—				By Balance	1,500	–	–
$\frac{3}{6}$ Share of Loss, £750	375	–	–				
,, Transfer from Ramp's Account, $\frac{15}{26}$ of £200	115	7	8				
,, Cash	1,009	12	4				
	£1,500	–	–		£1,500	–	–

Dr. CLICK—CAPITAL ACCOUNT *Cr.*

	£	s.	d		£	s.	d.
To Realization Account—				By Balance	1,100	–	–
$\frac{2}{6}$ Share of Loss, £750	250	–	–				
,, Transfer from Ramp's Account, $\frac{11}{26}$ of £200	84	12	4				
,, Cash	765	7	8				
	£1,100	–	–		£1,100	–	–

As a final example, let us assume that not only is there a loss on realization, but also that the partners are insolvent, unable to bring in more capital, and consequently the creditors can only be paid a dividend.

Worked Example (5)

F. Rose and G. Lupin are in partnership, sharing profits and losses two-thirds and one-third respectively. The following is the state of affairs at the date of dissolution.

BALANCE SHEET

Liabilities	£	s	d.	Assets	£	s	d
Sundry Creditors	6,250	–	–	Cash	475	12	8
Capital Accounts—				Sundry Debtors	2,068	15	7
F. Rose	2,260	5	8	Stock	2,287	10	9
G Lupin	1,032	1	8	Fixtures and Fittings	1,450	8	4
				Goodwill	3,260	–	–
	£9,542	7	4		£9,542	7	4

The assets, other than Cash, realize £4,286 10s. 6d., and the expenses of winding up are £150 15s. 8d.

It is desired to close the books of the firm, showing the Ledger Accounts.

Dr. CASH BOOK *Cr*

Receipts	Bank £	s	d	Payments	Bank £	s	d.
To Balance	475	12	8	By Realization Account—			
,, Realization Account—				Expenses	152	15	8
Proceeds of Sale of Assets	4,286	10	6	,, Sundry Creditors—			
				Dividend of 14s. 9d in the £ on £6,250	4,609	7	6
	£4,762	3	2		£4,762	3	2

Dr REALIZATION ACCOUNT *Cr.*

	£	s	d		£	s.	d.
To Sundry Assets	9,066	14	8	By Cash (Proceeds of Sale of Assets)	4,286	10	6
,, Cash (Expenses)	152	15	8	,, Balance (Loss Transferred to Profit and Loss Account)	4,932	19	10
	£9,219	10	4		£9,219	10	4

Dr. SUNDRY CREDITORS *Cr.*

	£	s	d		£	s.	d
To Cash (Dividend of 15s 4d. in the £)	4,609	7	6	By Balance	6,250	–	–
,, Balance c/d	1,640	12	6				
	£6,250	–	–		£6,250	–	–
To Transfer to Profit and Loss Account	1,640	12	6	By Balance b/d	1,640	12	6

Dr. PROFIT AND LOSS ACCOUNT *Cr*

	£	s.	d.		£	s.	d
To Realization Account— Balance b/f	4,932	19	10	By Balance Transferred from Sundry Creditors Account	1,640	12	6
				,, Capital Accounts (Balance Transferred)— F. Rose, $\frac{2}{3}$. £2,194 18 3; G Lupin, $\frac{1}{3}$. 1,097 9 1	3,292	7	4
	£4,932	19	10		£4,932	19	10

Dr. F. ROSE—CAPITAL ACCOUNT *Cr*

	£	s.	d.		£	s	d.
To Profit and Loss Account— Transfer of Balance	2,194	18	3	By Balance	2,260	5	8
,, Balance c/d	65	7	5				
	£2,260	5	8		£2,260	5	8
To Transfer to G. Lupin— Capital Account	65	7	5	By Balance b/d	65	7	5

Dr. G. LUPIN—CAPITAL ACCOUNT *Cr.*

	£	s.	d.		£	s.	d
To Transfer from Profit and Loss Account	1,097	9	1	By Balance	1,032	1	8
				,, Balance c/d	65	7	5
	£1,097	9	1		£1,097	9	1
To Balance b/d	65	7	5	By Transfer to F. Rose— Capital Account	65	7	5

In the previous case, a Profit and Loss Account is opened, debited with the loss on realization, and credited with the unpaid balance of the Sundry Creditors Account, which makes a paper profit. The balance of the Profit and Loss Account is transferred to the Capital Accounts in the usual way. The Capital Accounts are then closed by transfer of their corresponding but opposite balances.

Alternative Form of Realization Account

In some cases, the asset accounts are not closed by transfer to a Realization Account, but are left open. The cash received for the assets is debited in the Cash Book, and credited to the various asset accounts, the balances of which, representing either gains or losses, are carried to a Realization Profit and Loss Account. The actual gain or loss on each asset is thus clearly seen.

Worked Example of Alternative Form

L. Pomp and H. Shade are in partnership in a retail concern, and share profits equally. They decide to retire and sell up their business. The position of affairs on 1st December, 19.., was as follows—

BALANCE SHEET

Liabilities	£	s.	d.	Assets	£	s.	d.
Sundry Creditors	502	10	11	Lease	1,000	–	–
Capital Accounts—				Fixtures and Fittings	516	4	10
L Pomp	2,500	–	–	Sundry Debtors	958	12	6
H Shade	2,500	–	–	Stock-in-trade	2,518	16	3
				Cash in hand	508	17	4
	£5,502	10	11		£5,502	10	11

By 31st December, the lease was sold for £1,300, fixtures for £500, and stock for £2,600. The Book Debts realized only £910, £26 3s. 9d. being allowed for discount.

The creditors were paid £477 8s. 4d. in full settlement. The expenses of winding up were £36 18s. 6d.

It is desired to close the books of the firm, detailing the various Ledger Accounts, and showing the final payment to each partner.

Dr. CASH BOOK *Cr.*

Receipts	Discount £	s.	d.	Bank £	s.	d.	Payments	Discount £	s.	d.	Bank £	s	d.
To Balance				508	17	4	By Creditors	25	2	7	477	8	4
,, Lease				1,300	–	–	,, Realization Account						
,, Fixtures and Fittings				500	–	–	(Expenses)				36	18	6
,, Debtors	26	3	9	910	–	–	,, Capital Accounts—						
,, Stock				2,600	–	–	L. Pomp				2,652	5	3
							H. Shade				2,652	5	3
	£26	3	9	£5,818	17	4		£25	2	7	£5,818	17	4

Dr. LEASE *Cr.*

Date		£	s.	d.	Date		£	s	d.
19.. Dec. 1	To Balance	1,000	–	–	19.. Dec. 31	By Cash	1,300	–	–
31	,, Realization Account (Gain)	300	–	–					
		£1,300	–	–			£1,300	–	–

Dr. FIXTURES AND FITTINGS *Cr.*

		£	s.	d.			£	s.	d.
19.. Dec. 1	To Balance	516	4	10	19.. Dec. 31	By Cash	500	–	–
					31	,, Realization Account (Loss)	16	4	10
		£516	4	10			£516	4	10

Dr. SUNDRY DEBTORS *Cr.*

		£	s.	d.			£	s.	d.
19.. Dec. 1	To Balance	958	12	6	19.. Dec. 31	By Cash	910	–	–
					31	,, Discount	26	3	9
					31	,, Bad Debts Account—Transfer of Balance	22	8	9
		£958	12	6			£958	12	6

Dr. STOCK *Cr.*

		£	s.	d.			£	s.	d.
19.. Dec. 1	To Balance	2,518	16	3	19.. Dec. 31	By Cash	2,600	–	–
31	,, Realization Account (Gain)	81	3	9					
		£2,600	–	–			£2,600	–	–

Dr. SUNDRY CREDITORS *Cr.*

		£	s.	d.			£	s.	d.
19.. Dec. 31	To Cash	477	8	4	19.. Dec. 1	By Balance	502	10	11
	,, Discount	25	2	7					
		£502	10	11			£502	10	11

Dr. BAD DEBTS *Cr.*

		£	s.	d.			£	s.	d.
19.. Dec. 31	To Sundry Debtors	22	8	9	19.. Dec. 31	By Realization Account (Loss)	22	8	9

Dr. DISCOUNTS RECEIVED *Cr.*

		£	s.	d.			£	s.	d.
19.. Dec. 31	To Realization Account (Gain)	25	2	7	19.. Dec. 31	By Sundry Creditors	25	2	7

Dr. DISCOUNTS ALLOWED *Cr.*

19..		£	s.	d.	19..		£	s.	d.
Dec 31	To Sundry Debtors	26	3	9	Dec 31	By Realization Account (Loss)	26	3	9

Dr. REALIZATION PROFIT AND LOSS ACCOUNT *Cr.*

19..		£	s.	d.	19..		£	s	d
	LOSSES					GAINS			
Dec. 31	To Discounts Allowed	26	3	9	Dec 31	By Lease	300	—	—
	,, Fixtures	16	4	10		,, Discounts Received	25	2	7
	,, Bad Debts	22	8	9		,, Stock	81	3	9
	,, Cash (Expenses)	36	18	6					
	,, Capital Accounts—								
	L Pomp, ½	152	5	3					
	H. Shade, ½	152	5	3					
		£406	6	4			£406	6	4

Dr. L. POMP—CAPITAL ACCOUNT *Cr.*

19..		£	s	d.	19..		£	s	d
Dec. 31	To Cash	2,652	5	3	Dec. 1	By Balance	2,500	—	—
					31	,, Realization Account (Share of Gain)	152	5	3
		£2,652	5	3			£2,652	5	3

Dr. H. SHADE—CAPITAL ACCOUNT *Cr.*

19..		£	s	d.	19..		£	s.	d.
Dec. 31	To Cash	2,652	5	3	Dec. 1	By Balance	2,500	—	—
					31	,, Realization Account (Share of Gain)	152	5	3
		£2,652	5	3			£2,652	5	3

Limited Partnerships

The kind of partnership mentioned on page 453 is of a most interesting character. It was instituted in the Limited Partnership Act of 1907, and great things were confidently expected of it.

The idea is that a man who has no wish to saddle himself with the difficulties and cares of commerce, may be willing to advance money as a partner in a business, taking profits if they are made, and standing the risk of loss up to a certain point.

Such a man may think that a proposition is so promising that he is willing to risk, say, £1,000 upon the ability of another man or group to use the money wisely.

But he does not wish to take an unlimited risk that may engulf his whole fortune.

Such a position is entirely understandable. The action may be that of a sane, level-headed investor willing to invest a definite sum, and as it were, back the business ability of other persons to use it wisely.

Or such might be the action of a man desiring to give some relative, or person in whom he is interested, a start in life.

Ordinary partnership in such cases might mean that much more risk would be undertaken than the investor might desire to face.

The act was specifically drawn to meet such conditions as these.

Constitution of a Limited Partnership

The number of members in a limited partnership must not exceed twenty persons, or if the partnership is formed for the purpose of carrying on a banking business, the number must not exceed ten. There must be one or more General Partners, who will be liable for all the debts and obligations of the firm, and one or more Limited Partners, who will only be liable for the debts or obligations up to the amount of capital contributed by them. This amount is fixed at the time of entering into the partnership.

Capital

It was also provided that a limited partner could not withdraw any portion of his contribution either directly or indirectly. If a portion was withdrawn then he was liable for the debts of the firm up to the amount that was withdrawn.

Registration Required

Since a limited partner is only contributing a fixed sum, and is only liable for the debts up to that sum it follows that certain safeguards have to be introduced. The most important is registration. Every limited partnership must be registered as such, and if this is not done it will be deemed to be a general partnership, and every limited partner will be deemed to be a general partner.

The partnership must be registered by sending to the Registrar of Joint Stock Companies a statement, signed by all the partners, giving the following particulars—

1. The firm name.
2. The general nature of the business.
3. The principal place of business.
4. The full name of each of the partners.
5. The term, if any, for which the partnership is entered into, and the date of its commencement.
6. A statement that the partnership is limited, and the description of every limited partner as such.
7. The sum contributed by each limited partner, and whether paid in cash, or how otherwise.

Notice of any change of the above must be sent to the Registrar within seven days. A Registration Fee of £2 is payable, and an *ad valorem* stamp duty of £1 per cent on the amount introduced by the limited partner or partners, or any subsequent increase. Any person may inspect the Register of Limited Partnerships on payment of 1s., and may also obtain copies of any documents on payment of the prescribed fees

Modifications of Partnership Law

Other safeguards are : a limited partner must not take part in the management of the business, and he has no power to bind the firm, but he or his agent may inspect the books of the firm and also consider the state and prospects of the business, and if necessary advise the partners. If a limited partner does take part in the management of the partnership, he becomes liable for the debts contracted during that time as if he were a general partner.

If a limited partner dies or becomes bankrupt, the partnership is unaffected, and if he becomes a lunatic this is also not sufficient to cause a dissolution of the partnership by the Court unless the lunatic's share cannot be otherwise ascertained or realized.

If it is necessary to dissolve a limited partnership, the affairs shall be wound up by

the general partners unless the Court decides otherwise.

Rights and Duties of Limited and General Partners

As regards the rights and duties of the partners as between themselves, any differences relating to ordinary matters connected with the partnership business may be decided by the majority of the general partners, unless, of course, there is a special agreement between all the partners. The general partners may, if they wish, veto the application of a limited partner to assign his share of the partnership, but if the assignment is agreed to, the assignee becomes a limited partner with all the rights of the assignor. But the other partners are not entitled to dissolve the partnership because a limited partner allows his share to be charged for his separate debt, neither can a limited partner dissolve the partnership by giving notice to that effect. The general partners are also able to introduce any person as a partner without the consent of the existing limited partners.

Advantages and Disadvantages

As between Limited Partners and a General Partner or a member of an ordinary partnership the advantages to the Limited Partner are two—

1. His liability is limited to the amount he has agreed to contribute.
2. He can share in the profits of the partnership without increasing this fixed liability.

This enables a capitalist to provide funds for inventors to carry out their ideas, also friends to finance a young man setting up in business, and to share in any benefits accruing, without incurring any further risks beyond the fixed liability.

The disadvantages are more numerous, namely—

1. The Limited Partner cannot withdraw any part of his capital.
2. He cannot take part in the management.
3. He cannot dissolve the partnership by giving notice.
4. Other partners can be introduced without his consent.
5. There is publicity, owing to the registration and the open inspection of the Register.

As regards the General Partner the advantages are—

1. Fresh capital can be obtained without the expense and formalities of converting the business into a limited company, or without mortgaging his property.
2. The Limited Partner cannot interfere with the management of the business.
3. A new partner can be introduced without the consent of the limited partner.
4. There is no fear of capital being suddenly withdrawn, as the death or bankruptcy of the limited partner does not of itself dissolve the partnership, neither can the limited partner dissolve it by giving notice.

The disadvantages to the General Partner are, chiefly, compulsory registration, and the consequent publicity through anyone being able to inspect the Register and obtain copies of any document.

Limited Partnerships are not so frequent, owing to the greater popularity of the Private Limited Company, with a minimum membership of two persons.

Besides being governed by the Limited Partnership Act, 1908, the Partnership Act, 1890, also applies to Limited Partnerships in those cases where its provisions are not inconsistent with the former Act. In the case, also, of a winding up, the Bankruptcy Act, 1914, applies in the same manner as if they were ordinary partnerships, and on all the general partners being adjudged bankrupt, the assets of the Limited Partnership shall vest in the trustee.

CHAPTER XXXII

JOINT STOCK COMPANIES

THE phrase " Joint Stock " has a more pleasing sound than " Limited Liability." It interprets the real intention of the Companies Acts in a better way, for the suggestion of pooled capital rather than of protected self-interest is a fair summary of the British trading instinct.

Yet it is important to keep in mind the frank purpose of protection to the individual, in these Acts, not because the adventurer who recklessly speculates with other persons' money is worthy of protection, but because encouragement should be given to the legitimate trader to adopt bold and enterprising methods.

In the very fact that the law allows him to state the extent to which he will mortgage his assets, and limit his liability at this point, this encouragement is given.

It is very desirable in the commercial world that men and women who have means should be prompted to use their capital in any legitimate manner that promises a reasonable profit.

The desire to obtain the best return on capital, under conditions that offer reasonable security, is an incentive that urges the investor to explore every avenue of development and of enterprise, to test the demands arising from new tastes and new habits, to investigate the worth of new inventions and discoveries, to penetrate new regions, to develop new nations, and equip new populations.

Origin of " Limited Liability "

In the history of commerce much of this work has been hampered through the ages by the very great difficulty of placing a limit upon the liability incurred. Insurance, in some form of underwriting, is perhaps the oldest method of achieving this object.

The Carthaginians, Romans, and Greeks had methods by which the risks and profits of their voyages were pooled among many.

During the early Middle Ages, Italy and Spain grew rich because their merchants operated under the security of trading customs evolved by the progressive spirit of the times.

In our own land, from the time of the Stuarts onward, the principle of limitation of personal liability gained gradual recognition.

Enterprises of semi-national importance, such as banks which assisted the Government with loans, and trading companies, such as the East India Company which had almost a political significance, obtained special favours.

In all these developments provision was made for the investor who could measure the total extent of his possible loss.

In the early part of last century there came into being many companies with large numbers of shareholders.

The chief influence in this respect was the increased interest in insurance, and with it a growing habit of thought that insurance was naturally a mutual enterprise, and that, as many persons obtained the benefits of protection, many persons should take the risks of membership and capital investment.

Early Difficulties

These companies found themselves hampered by certain difficulties in the law. One rather curious disability was that they were practically unable to sue for debt, and consequently could not give credit for small amounts.

The reason seems to us very quaint. As a writ or a summons must contain the names of the persons who sue, and as these names would need to be repeated possibly three or four times, with descriptions that made them recognizable, a single document would require possibly a hundred thousand words of such precise detail, in the transcription of which a single error might vitiate the claim.

To sue for a debt of five pounds by a process that might cost many times that sum, in its initial stage, was ridiculous. Hence these companies were obliged to seek special Acts of Parliament in order to become corporate bodies, able to use a brief description for legal purposes.

Such a disability affecting large numbers of investors, created the public opinion among business men which led to the gradual development of the company laws that made it easy for investors to co-operate in commercial enterprises.

There can be no doubt that these Acts have been of enormous advantage, not only to the trading community, but to the nation as a whole.

The fact that any method of limiting liability

is open to abuse is sometimes allowed to bring the principle itself into question. There have been occasions when serious charges have been made against the morality of any system by which a man seeks to avoid the fullest consequences of his actions.

The reply of the trading world to such charges is that unless some principle of limitation in liability is accepted, no man would be safe to touch commerce at all.

In the days when unlimited banks came into existence, it happened again and again that the possession of even a single share valued at a few pounds has ruined a man of considerable substance, for as a shareholder he was liable to the last penny of his possession to pay any creditor of the bank who cared to sue him.

In these days of swift movement, of new enterprises, and of fast changing taste, the ability to experiment is in itself of urgent importance. That it shall be easy, where there is the slightest chance of profit resulting, for people to plunge into trade and create new industries, is for the good of all. Aeroplanes, wireless, and moving pictures which attracted the capital of investigators a few decades ago, now swell the wage roll of the millions.

The suitability of the limitation method for enterprises involving large sums of money has long been recognized. An outstanding feature of to-day is the growing use of the system for small ventures. Companies with a total capital of a few hundreds are constantly registered.

The old fear that the multiplication of small companies would lead to irresponsible trading, appears to be scarcely justified by experience, for though a great number of small companies have come into existence which have not been very successful, it is to be doubted if the fact of being registered has enabled their owners to obtain more credit or to act more unsatisfactorily than they could have done as private traders.

Definitions

A *company* is an association of persons for the purpose of carrying on trade or business, generally for mutual gain.

A *joint stock company* is defined by Shelford as "an association of individuals for purposes of profit, possessing a common capital contributed by the members composing it, such capital being commonly divided into shares, of which each possesses one or more, and which are transferable by the owner." Joint stock companies, at the time of writing, are now governed by "The Companies Acts, 1908 to 1917."

Prohibition of Large Partnerships

Companies not incorporated are, in the eyes of the law, nothing more than private partnerships. No partnership consisting of more than *ten* can be formed to carry on the business of banking, and no partnership consisting of more than *twenty* persons can be formed for the purpose of carrying on any other business which has for its object the acquisition of gain, without being registered as a company.

Points of Difference

In making a comparison between a joint stock company and any ordinary (unlimited) partnership, the following should be noted—

1. The individuality of the members who form a company is entirely lost in the personality of the company itself, which is regarded in law as a separate and distinct entity. Thus, a member of a company may enter into contracts with the company itself in the same manner as any other individual.

2. In a limited company, the liability of each member is limited to the amount unpaid on the shares which he holds; in a partnership, the members are liable jointly and severally for the whole of the debts of the firm.

3. In a partnership the rights of the members are regulated by the Deed of Partnership, and may be altered by mutual agreement. In a joint stock company, the powers of the company are governed by the Memorandum of Association, which cannot be altered except by consent of the Court; while the powers of the directors are regulated by the Articles, which can only be altered by special resolution of the shareholders.

4. In a public company, shares may be transferred without the consent of the company, and without affecting its existence; this is not possible in a partnership.

5. In a partnership, each partner can take part in the management, and his actions are legally binding on the firm; but in a company, the rights of management are restricted to a special body of shareholders, called directors.

6. In a partnership, the number of members must not exceed twenty, and in the case of a banking company, ten. In a joint stock company, there is no such limit, except that there must not be less than seven persons in a public company, or less than two in a private one.

7. In a partnership, the capital may be

increased by profits and by additions, or decreased by withdrawals and losses, or altered by mutual agreement. In a joint stock company, the capital is fixed by the Memorandum, is not affected by trading profits or losses, and can only be increased or decreased in a special statutory manner.

8. The law prescribes an annual audit for a joint stock company, but not for a partnership.

9. In a joint stock company, the creditors can proceed against the property of the company only in case of necessity, and ordinarily there is no remedy beyond the amount of the fixed capital, which is, in fact, the total amount of the property of the legal person. In a partnership, the creditors may proceed not only against the property of the partnership, but also against the private property of each individual partner.

How a Company is Formed

An incorporated company is formed by seven or more persons subscribing their names to a document known as a Memorandum of Association, and also complying with the requirements of the Companies Acts as regards registration. If the company is to be a private one, according to the Acts, then the signatures of two or more persons are required. It must be understood that the subscribers are associated together for a lawful purpose, for if the purpose is unlawful, registration will be refused.

It will be seen from this that any individual can make his business into a private joint stock company by the simple act of associating some person with himself. This person may be an employee, a friend or a relative, who has no liability beyond the extent of the share, or shares, he holds, which usually being fully paid, means there is no liability at all.

Kinds of Companies

There are three kinds of companies which may be constituted and incorporated under the Companies Acts—

1. *Company Limited by Shares.* This is a company in which the liability of its members is limited by the Memorandum to the amount unpaid, if any, on the shares respectively held by them. Once the capital is fully paid up, there is no further liability resting upon the shareholder. This class is subdivided into public and private companies.

2. *Company Limited by Guarantee.* This is a company in which the liability of its members is limited by the Memorandum to such an amount as the members may respectively thereby undertake to contribute to the assets of the company in the event of its being wound up. There are only a few companies of this class in existence.

3. *Unlimited Company.* This is a company not having any limit on the liability of its members. Every shareholder is thus liable for the debts of the company as in an ordinary partnership. It possesses, however, two advantages: (*a*) the liability of each member ceases at the end of a year from the time he ceases to be a member, and (*b*) the shares of the company are transferable. Such companies are now extremely rare, and for several years past none has been registered

Private Company

A private company is purely the creation of statute law, and by the Companies Acts it is a joint stock company which, by its articles—

1. Restricts the right to transfer its shares.
2. Limits the number of its members (exclusive of persons who are in the employment of the company and ex-employees) to fifty.
3. Prohibits any invitation to the public to subscribe for any shares or debentures of the company.

A private company may, unless the Memorandum or Articles expressly forbid it, turn itself into a public company by passing a special resolution, and filing with the Registrar of Companies the prescribed statement in lieu of prospectus, together with the prescribed statutory declaration. Where two or more persons hold one or more shares jointly, they are to be treated as a single member.

It is proposed, however, by the new companies' legislation to simplify this procedure by providing that if a private company alters its Articles in such a way that the above provisions are not included, then it shall cease to be a private company. It must, therefore, within fourteen days file with the Registrar of Companies a prospectus or statement in lieu of prospectus.

Advantages of a Private Company

A private company is exempted from several of the obligations and restrictions that are imposed on a public company, namely—

1. The minimum numbers of members may be two instead of seven.
2. It is not obliged to file a statement in lieu of a prospectus.

3. The restrictions put upon the commencement of business, namely, the obtaining of the minimum subscription and waiting for the certificate entitling it to commence, do not apply.

4. It is not required to file with the annual summary the prescribed financial statement in the form of a Balance Sheet.

5. The restrictions placed on the allotment of shares and on the appointment of directors do not apply.

6. It is not obliged to forward the statutory report to the members, or to file it with the Registrar of Companies.

7. The holders of preference shares and debentures in a private company have not the right of those in a public company formed since the 1st July, 1908, to receive and inspect the Balance Sheets and the auditors' reports.

8. Under the new law, the statutory meeting need not be held.

Memorandum of Association

The Memorandum of Association, which must be signed by the subscribers, is an exceedingly important document, as it constitutes the charter of the company and gives it the individual legal powers it possesses.

Unless this document is properly drawn up, the company may come into existence so hampered as to be entirely unable to operate.

There have been cases where a great deal of time and money has been spent in forming a company, and as soon as all the legal conditions were complied with, it has been discovered that the company was entirely powerless to carry on the very business for which it had been called into existence.

Only a few months before these words were written the trading world was amazed at the news that a well-conceived and well-planned company, which was taking over an established business, had no sooner obtained powers to trade than it went into voluntary liquidation.

There was no shortage of money, the directors were highly respected, and the business was sound and solid.

An explanation followed.

By a slip of the pen some important words had been altered in, or omitted from, the Memorandum of Association.

The reader may be inclined to think that there is a very foolish flaw in the Companies Acts that makes such an error so costly. But he should remember what the Memorandum really is.

It has virtually the force of an Act of Parliament. Indeed, it does give to trading bodies, large or small, the powers which at one time were only obtainable by companies by private Acts of Parliament.

It gives traders powers of dealing with debts, with capital, and with assets in an entirely detached manner. Consequently, it is essential that somewhere there should be stated precisely what those powers are; and equally it is reasonable that the controllers of the company, having had the right to state what powers they claim to exercise, should in actual operations keep within those powers.

The Chief Pitfall

The chief pitfall in the Memorandum of Association lies in Clause 3. Here must be stated the objects of the company.

Many persons engaged in commerce, when first presented with a form on which to state the objects of a trading company, might be satisfied to describe the business they are then doing.

Thomas Smith, a draper, for example, may write down, "To buy and sell drapery by retail."

Let us suppose that he forms his company on this basis. His trade develops. Presently the clothier's business next door is offered him, and he buys it on behalf of his company. At once he is in a difficulty. Clothing may be sold by drapers, but it is doubtful if it can be described as "drapery."

When he adds a boot and shoe shop, and a furniture store, he is breaking the law all the time. He may find the wholesale business attractive, but he acts outside his powers if he develops in this direction.

No one may pull him up, or peer too earnestly into his powers as long as affairs are prosperous. But should they not continue to be so, he will find that he has undertaken all these outside liabilities on his own account, and is personally debtor for what may have been incurred.

A person reading the Memorandum of Association of a company for the first time is often struck with the remarkably wide powers that are usually claimed.

This is because far-seeing people realize that business is in a constant state of change, and that the retailer of to-day may quite easily become the manufacturer of to-morrow.

It is therefore essential that the Memorandum should be so worded that the trader shall retain

as a company director as much freedom for future action as he would in his own person

As there are three kinds of companies, so there are three kinds of memorandums, in order to provide for the varying circumstances.

M/A of a Company Limited by Shares

The Memorandum must state—

1. The name of the company, with "Limited" as the last word in its name.

2. The part of the United Kingdom, whether England, Scotland, or Northern Ireland, in which the registered office of the company is to be situate.

3. The objects of the company.

4. That the liability of the members is limited.

5. The amount of the share capital with which the company proposes to be registered, and the division thereof into shares of a fixed amount

No subscriber of the Memorandum may take less than one share, and each subscriber must write opposite to his name the number of shares he takes.

M/A of a Company Limited by Guarantee

The Memorandum must state—

1. The name of the company, with "Limited" as the last word in its name.

2. The part of the United Kingdom, whether England, Scotland, or Northern Ireland, in which the registered office of the company is to be situate.

3. The objects of the company.

4. That the liability of the members is limited.

5. That each member undertakes to contribute to the assets of the company in the event of its being wound up while he is a member, or within one year afterwards, for payment of the debts and liabilities of the company before he ceases to be a member, and of the costs, charges, and expenses of winding up, and for adjustment of the rights of the contributories among themselves, such amount as may be required, not exceeding a specified amount.

If the company has a share capital—

1. The Memorandum must also state the amount of share capital with which the company proposes to be registered, and the division thereof into shares of a fixed amount.

2. No subscriber of the Memorandum may take less than one share.

3. Each subscriber must write opposite to his name the number of shares he takes.

M/A of an Unlimited Company

The Memorandum must state—

1 The name of the company.

2. The part of the United Kingdom, whether England, Scotland, or Northern Ireland, in which the registered office of the company is to be situate.

3 The objects of the company

If the company has a share capital—

1. No subscriber of the Memorandum may take less than one share

2. Each subscriber must write opposite to his name the number of shares he takes.

Articles of Association

In addition to the Memorandum of Association most companies have "Articles," which are practically the rules for applying the powers obtained and for the regulation of the business.

Although these should be very carefully drawn in the first place, they are not quite as perilous as the Memorandum, because they can be altered at any time, provided this is done in the proper manner set out in the Companies Acts.

The Articles may be regarded as the agreement of the members or owners of the company with each other.

Although they may be varied at any time, they cannot be varied in such a way as to clash with the Memorandum or with the provisions of the Companies Acts.

Companies which are limited by guarantee, and unlimited companies, *must* register Articles of Association along with the Memorandum.

These are really a set of rules of by-laws drawn up to govern the internal working of a company. They regulate the issue of capital, the transfer and forfeiture of shares, the holding of meetings, prescribe for the keeping of the accounts and the audit of them, define the powers and duties of directors, the rights of shareholders *inter se*, and other matters.

A company limited by shares may either register special articles or adopt Table A, which is a model set of articles provided in the Companies Acts. Unless expressly excluded or modified, the regulations in Table A will be held, where applicable, to be the company's regulations.

Articles must be (*a*) printed, (*b*) be divided into paragraphs numbered consecutively, (*c*) bear a deed stamp, (*d*) be signed by each subscriber of the Memorandum of Association. A company may, by special resolution, alter or add to its Articles. Any Article is null and void in so far

as it conflicts with the Memorandum of Association or with statute law.

Registration of Memorandum and Articles

The Memorandum and the Articles (if any) must each be stamped with a 10s. deed stamp, and must be signed by each subscriber in the presence of at least one witness, who must attest the signature. They must then be forwarded to the registrar of companies for that part of the United Kingdom in which the registered office is stated by the Memorandum to be situate; and he will retain and register them.

Every company must send to each member, at his request, and on payment of 1s., or such less sum as the company may prescribe, a copy of the Memorandum and of the Articles (if any) under penalty of a fine not exceeding £1.

In addition to the deed stamp of 10s., registration fees or stamps are necessary, in the case of a company having a share capital, according to the following scale—

	£	s	d
Where the nominal share capital does not exceed £2,000	2	–	–
Where the nominal share capital exceeds £2,000, the following fees according to the amount of nominal share capital—			
For every £1,000 or part of £1,000 up to £5,000	1	–	–
For every £1,000 or part of £1,000 after the first £5,000 up to £100,000 . .		5	–
For every £1,000 or part of £1,000 after the first £100,000		1	–
For any increase of share capital after the first registration, the same fees per £1,000 or part of £1,000 as would have been payable if the increased share capital had formed part of the original share capital.			
No company to pay in respect of nominal share capital, on registration or afterwards, any greater amount of fees than	50	–	–
For registering any document required or authorized by the Act to be registered		5	–
For making a record of any fact required or authorized by the Act to be recorded by the registrar		5	–

In addition there is a duty, imposed by the Finance Act, 1920, of 20s. on each £100 or part of £100 of the capital of the company.

Preliminary or Formation Expenses

The registration fees, also the capital duty, are included amongst the Preliminary Expenses of a company. These are all expenses incidental to the formation or promotion of a joint stock company; hence they are also called Formation and Promotion Expenses. They comprise in addition to the above, law costs, printing of prospectuses and forms of application, advertising, and other expenses.

They are, of course, capital expenditure, but since they are not represented by assets, they are written off to Profit and Loss over a series of years, three to five, according to the magnitude of the amount. The balance of the Preliminary Expenses Account thus appears on the assets side of the Balance Sheet until finally extinguished.

Certificate of Incorporation

On the registration of the Memorandum of Association of a company, the registrar certifies under his hand that the company is incorporated, and in the case of a limited company that the company is limited.

From the date of incorporation mentioned in the Certificate of Incorporation, the subscribers of the Memorandum, together with such other persons as may from time to time become members of the company, form a body corporate by the name contained in the Memorandum. The company then becomes capable of exercising all the functions of an incorporated company, and has perpetual succession and a common seal, with a power to hold lands. There is also the liability, as mentioned in the Companies Acts, on the part of the members to contribute to the assets of the company, in the event of its being wound up.

If the company is a private one, it is at liberty to commence business forthwith; but a public company cannot proceed further than the issue of the prospectus inviting the public to subscribe for its shares.

Prospectus

A Prospectus is a document issued by public companies, inviting the public to subscribe for the company's shares or debentures. At the foot of the Prospectus there is generally an Application Form to be filled up by persons wishing to purchase shares. Every prospectus must be dated.

A copy of every Prospectus, signed by all the directors of the company, must be filed for registration with the Registrar of Joint Stock Companies on or before the date of its publication, and no such Prospectus must be issued until a copy of it has been so filed for registration.

The Companies Acts contain in full detail the statutory requirements of a Prospectus.

The broad intention of the Act is that the statements contained in this document shall present all the material facts of the case. These are indicated in the Act, and where the requirements are frankly and honestly met, there is usually little fear of question.

Many persons connected with companies regard the Prospectus as a kind of official document which, once having been issued and a copy duly sent to the Registrar of Companies, has discharged all obligations connected with selling shares to the public, and that once these requirements are satisfied shares may be offered in any way that takes the fancy.

The point overlooked is that a public offer of shares, wherever made, *is* a Prospectus, and as such must conform to the requirements of the Act.

Statement in Lieu of Prospectus

Where a company does not issue a Prospectus on or with reference to its formation, it must not allot any of its shares or debentures unless before the first allotment of either shares or debentures there has been filed with the Registrar of Companies a "Statement in Lieu of Prospectus," signed by all the directors of the company, and containing the particulars required by Acts. This does not apply to a *private* company.

Directors and Restrictions on Their Appointment

The control of a company is not usually exercised by the direct owners, unless it is a private company, but by a small committee, called directors.

The directors of a joint stock company are those persons who are elected by the shareholders to conduct and manage its business. Collectively they form the Board of Directors, and their powers are conferred, defined, and regulated by the Memorandum and Articles of Association.

No person can be appointed a director, or named in any Prospectus or Statement in Lieu of a Prospectus, unless he has previously—

1. Signed and filed with the Registrar of Companies a consent in writing to act as such director ; and

2. Either signed the Memorandum for a number of shares not less than his qualification (if any), or signed and filed with the Registrar a contract in writing to take from the company and pay for his qualification shares (if any).

Section 2 has, by the new Companies Act, been amended by the following—

(2) Either signed the Memorandum for his qualification shares (if any), or taken from the company and paid or agreed to pay for such shares, or signed and filed with the Registrar a written undertaking to take from the company and pay for such shares, or made and filed with the Registrar a statutory declaration to the effect that such shares are registered in his name.

When applying for the registration of the Memorandum and Articles of a company, the applicant must deliver to the Registrar a list of the persons who have consented to become directors of the company. This section does not apply to a *private* company.

A director must obtain his qualification shares within two months (or such shorter term as the Articles may fix) of his appointment, or vacate the office. The acts of a director or manager are valid, notwithstanding any defect afterwards discovered in his appointment or qualification.

REGISTER OF DIRECTORS

Present Christian Name or Names and Surname	Former Christian Name or Names and Surname	Nationality	Nationality of Origin (if other than the present Nationality)	Usual Residence	Other Business Occupations (if any)

Register of Directors and Managers

In accordance with the Companies Acts, every company must keep at its registered office a Register containing the names and addresses and the occupations of its directors or managers, and send a copy of it to the Registrar of Companies. The Registrar, from time to time, must be notified of any change among the directors or managers.

A specimen ruling of the Register is shown on the previous page.

Registered Office, Seal, and Name

Every company must have a registered office to which all communications and notices may be addressed, and notice of the situation of this office, and of any change therein, must be given to the Registrar of Companies.

Every company must also possess a common seal, which must be used for the authentication of all important documents.

In compliance with the Acts, every limited company must also—

(*a*) Paint or affix, and keep painted or affixed, its name on the outside of every office or place in which its business is carried on, in a conspicuous position, in letters easily legible.

(*b*) Have its name engraven in legible characters on its seal.

(*c*) Have its name mentioned in legible characters in all notices, advertisements, and all other official publications of the company, and in all bills of exchange, promissory notes, endorsements, cheques, and orders for money or goods purporting to be signed by or on behalf of the company, and in all bills of parcels, invoices, receipts, and letters of credit of the company.

A company may not be registered by a name identical with that by which a company in existence is already registered. The prefix "Royal," "Imperial," or similar word may not be used without the written consent of the Home Secretary. In addition, by the Anzac Act, 1916, the name "Anzac" must not be used except by permission of the Secretary of State acting on the request of the Governments of Australia or New Zealand; nor, according to the Companies Act, 1928, may the word "Co-operative" be used without permission of the Board of Trade.

Where a company is formed to promote science, art, religion, commerce, charity, or any other useful object, and intends to use its profits for its objects instead of for paying dividends, it may by licence of the Board of Trade omit the word "Limited" from its name.

SHARE CAPITAL

Share Capital is the money subscribed by the shareholders for the purposes of the company.

Nominal, Authorized, or Registered Capital.

Nominal Capital is the amount stated in the Memorandum of Association. The capital used by the company may be only a part of its capital. The full amount of the capital very often exists only *in name*; hence the use of the word "*Nominal*" to indicate the full capital.

Authorized Capital is also the amount stated in the Memorandum of Association. The latter is often looked upon as the charter which *authorizes* the existence and acts of the company; hence the application of the word "*Authorized*" to the company's capital.

Registered Capital is also the term applied to the capital as mentioned in the Memorandum of Association. The Memorandum has to be *registered* with the Registrar of Joint Stock Companies; hence the use of the term "*Registered*" with reference to its capital.

Issued and Subscribed Capital

Issued Capital is the capital represented by the number of shares that have been issued to the public for cash, and to the vendors as fully or partly paid in part payment of the purchase price of the business of the vendor. A company frequently issues only a part of its shares; hence the use of the term "*Issued Capital*" to denote the part so issued. Each person who applies for shares must *subscribe* or sign his name to an application form, promising to pay the full value of the shares issued to him; hence the use of the term "*Subscribed Capital*" to denote the part of the capital issued to the public for cash.

Called-up and Paid-up Capital

The Called-up Capital is that amount of money called up on the shares actually subscribed. A company does not necessarily require the full amount at once on the shares it has issued, and therefore "*calls up*" only as much as it needs; hence the application of the term to this part of its capital.

The Paid-up Capital is the amount of the Called-up Capital that has actually been "paid up" by the shareholders. The latter sometimes

fail to pay the amounts due from them, and these amounts are then termed "Calls in Arrear." The term "Paid-up Capital" also includes the amount of the shares issued to the vendor as partly or fully paid.

Uncalled and Reserve Capital

The amount not yet called on the shares issued to the public is termed the "Uncalled Capital."

The term "Reserve Capital" is applied to that part of the Nomina, or Registered, or Authorized Capital which has not yet been offered to the public for subscription.

Example Illustrative of Above Terms

A company was formed and duly incorporated, and its Capital was stated in the Memorandum to consist of 150,000 shares of £1 each. It issued to the vendors 40,000 shares of £1 each, as fully paid, in part payment of the purchase price of the business. The public subscribed for 80,000 shares, which were payable 2s. 6d. per share on application, 2s. 6d. per share on allotment, 5s. per share one month later, and the balance as and when required. All the money was received with the exception of the call of 5s. on 100 shares.

In this case the Capital of the company would be termed as under—

	£
Nominal, authorized, or registered capital	150,000
Issued capital	120,000
Subscribed capital	80,000
Called-up capital	40,000
Paid-up capital	39,975
Uncalled capital	40,000
Reserve capital	30,000

SHARES

A share is the individual portion of the joint stock company's capital owned by a shareholder. Shares are divided and classified according to their respective rights.

Classes of Ordinary Shares

An Ordinary Share is one which has no special or particular rights, but merely the general right of a shareholder as such to participate in the profits of the company.

A Preferred Ordinary Share is one which has a right to a fixed dividend after the payment of dividend on the preference shares.

Deferred Ordinary Shares are those which rank for dividend after the preferred ordinary shares. They are often entitled to a very substantial portion of the profits then remaining.

Classes of Preference Shares

Preference Shares are those which have a prior claim on any profits available for dividend. They may also have a prior claim to repayment of capital in the event of the company being wound up; such prior capital rights must, however, be definitely stated in the Memorandum or Articles of Association. The non-cumulative preference dividend is only payable in any year, provided there are sufficient profits available for dividend out of which to pay it; otherwise it is entirely lost.

Cumulative Preference Shares are those on which the fixed dividend accumulates until it is all paid, the arrears of any one year being carried forward as a charge upon the succeeding year's profits. There is, however, no obligation to pay until there are sufficient profits available for dividend. The arrears of dividend are therefore shown on the Balance Sheet only as a *contingent* liability. Unless the Articles expressly stipulate otherwise, preference shares are always cumulative.

Participating Preference Shares are those shares which are entitled to share in any surplus profits, after payment of their own fixed dividend and a dividend to the ordinary shareholders.

First Preference Shares are those issued in extreme cases where capital is urgently needed. They have rights and privileges prior to the preference shares, and hence are often called Pre-preference Shares.

By the new Companies Act, Redeemable Preference shares may be issued, repayable out of profits.

Deferred, Founders, and Management Shares

These are shares which have to wait for their dividend until all other classes of shares have participated in the profits. Such shares are usually held by the promoters or founders, and sometimes by the vendors and management; hence the application of these words to such shares. They are generally entitled to the whole or to a very large proportion of the surplus profits after payment of all other dividends.

THE ISSUE OF SHARES

Price of Shares

Shares may be issued *at par*, that is, at a price *equal* (Latin, *par* = equal) to their face value, as, for example, a £1 share for £1.

Share may also be issued *at a premium*, that

WESTERN MANUFACTURING COMPANY, LIMITED

(Incorporated under the Companies Act .. ..)

ISSUE OF 100,000 PREFERENCE SHARES OF £1 EACH AT PAR

FORM OF APPLICATION

To the Directors of the

WESTERN MANUFACTURING COMPANY, LIMITED

GENTLEMEN,

Having paid to your Bankers the sum of £ . .. ... , being a deposit of 2s. 6d. Per Share on . .. . .Preference Shares of £1 each, I agree to purchase that number of the said shares, or any smaller number that you may allot to me, upon the terms of the prospectus dated 11th January, 19.., and to pay the balance of the purchase money by the instalments specified in the said Prospectus, and I authorize you to place my name on the Register of Members as the registered holder of the said Preference Shares

Signature . . . .

Name in full . . ..

(State whether " Mr." " Mrs ," or " Miss," and title, if any.)

Address in full . .. .

. . . .

. . . .

Occupation . . . .

Date . . . . .19..

This form should be filled up and forwarded ENTIRE, together with the deposit of 2s. 6d. per Share on the number of Shares applied for, to the Company's Bankers, THE RELIABLE BANK, LIMITED, FINSBURY, LONDON, W.C.

A separate Cheque must accompany each application.

. . . .

WESTERN MANUFACTURING COMPANY, LIMITED

BANKERS' RECEIPT

No... . . . .

RECEIVED this .... day of . . .., 19..

from . . . .

the sum of . . . .

for the credit of the WESTERN MANUFACTURING COMPANY, LIMITED, being a deposit of 2s. 6d. per share on . . . . Preference Shares of £1 each in the above-named Company.

For THE RELIABLE BANK, LIMITED,

£ : : .... Stamp ....

Cashier.

This Receipt, when returned by the Bankers, must be preserved and exchanged in due course for Share Certificate

is, at a price *above* (Latin, *praemium* = a profit) their nominal or face value, as, for example, a £1 share for £1 2s. 6d.

Shares may not be issued *at a discount*, that is, at a price *below* (discount = a deduction) their nominal or face value, as by the Companies Act, 1908, it is illegal for a company to do so. But the Companies Act, 1928, however, gives power to a company to issue at a discount, shares of a class already issued, provided that the authorization is made by a resolution passed at a General Meeting, and the resolution has been sanctioned by the Court. A company's shares may, of course, be purchasable on the Stock Exchange *below par*, but that is the broker's offer and not the company's.

Terms of Payment

Shares may be issued payable in full on application, or they may be issued payable by stated instalments as and when required by the company.

Form of Application

A printed Application Form is issued with the prospectus. A specimen is given on page 494.

Restrictions on Allotment, Minimum Subscription

Allotment is the distributing of the shares in response to the applications made for them, or in pursuance of contracts agreeing to take them. The Companies Acts enact that—

1. No allotment must be made of any share capital offered to the public for subscription, unless the following conditions have been complied with, namely—

   (*a*) The amount (if any) fixed by the Memorandum or Articles and named in the prospectus as the minimum subscription upon which the directors may proceed to allotment; or

   (*b*) If no amount is so fixed and named, then the whole amount of the share capital so offered for subscription,

has been subscribed, and the sum payable on application for the amount so fixed and named, or for the whole amount offered for subscription, has been paid to and received by the company.

2. The amount so fixed and named and the whole amount aforesaid must be reckoned exclusively of any amount payable otherwise than in cash, and is in the Act referred to as the "*minimum subscription.*"

3. The amount payable on application on each share must not be less than 5 per cent of the nominal amount of the share.

4 If the conditions aforesaid have not been complied with on the expiration of forty days after the first issue of the prospectus, all money received from applicants for shares must be forthwith repaid to them

5. Any condition requiring or binding an applicant to waive compliance with any requirement of this section is void.

6. This section, except Sub-section 3, does not apply to any allotment of shares subsequent to the first allotment of shares offered to the public for subscription.

7 In the case of the first allotment of share capital payable in cash of a company which does not issue any invitation to the public to subscribe for its shares, no allotment must be made unless the *minimum subscription* (that is to say)—

   (*a*) The amount (if any) fixed by the Memorandum or Articles and named in the statement in lieu of prospectus as the minimum subscription upon which the directors may proceed to allotment; or

   (*b*) If no amount is so fixed and named, then the whole amount of the share capital other than that issued or agreed to be issued as fully or partly paid up otherwise than in cash,

has been subscribed and an amount not less than 5 per cent of the nominal amount of each share payable in cash has been paid to and received by the company. This sub-section does not apply to a *private* company.

It is proposed in the new companies legislation that the amount of the minimum subscription must be an amount sufficient to provide for the purchase price of any property to be bought by the proceeds of the issue; for the preliminary expenses, payable by the company, and any commission payable to underwriters; for the repayment of money borrowed by the company in respect of these matters, and for working capital. It is proposed to repeal Sub-section 7 above.

Letter of Allotment

A Letter of Allotment is a notice sent to each allottee informing him of the number of shares allotted to him. The letter requires a 1d. stamp when the amount is less than £5, while for larger amounts the duty is 6d. An application for shares is an offer to contract, and the posting

WESTERN MANUFACTURING COMPANY, LIMITED

(Incorporated under the Companies Act .)

LETTER OF ALLOTMENT

£5 or over, 6d. Stamp, under £5, 1d.

No..... . .. . REGISTERED OFFICE,

.... ,... . . . . . .19. .

SIR OR MADAM,

In accordance with your application for Shares in the above Company, I beg to inform you that the Directors have allotted you . Preference Shares of £1 each.

The amount payable on application and allotment in respect of the said Shares is	£ : .
You have paid on application	£ : :
Balance due from you	£ : :

which sum must be paid to the Company's Bankers, THE RELIABLE BANK, LIMITED, Finsbury, London, W.C., on or before the ....instant.

Yours faithfully,

To ....

....

.... *Secretary*.

This form must be forwarded ENTIRE, together with remittance to the Company's Bankers.

. . . .

WESTERN MANUFACTURING COMPANY, LIMITED

BANKERS' RECEIPT

RECEIVED this............day of..................., 19..
from ....
the sum of ....
being.............per Share payable on allotment of ....
Preference Shares of £ ....each in the above Company.

For THE RELIABLE BANK, LIMITED.

.... Stamp ....

£ : : *Cashier*.

This Receipt, when returned by the Bankers, must be preserved and exchanged in due course for Share Certificate.

of the Letter of Allotment is an acceptance of such offer. A specimen is given on the previous page.

The examples that follow show the entries necessary to record in the financial books the receipt of the moneys, in total, from would-be shareholders.

Worked Example (1)

A joint stock company issued 80,000 ordinary shares of £1 each at 22s. 6d. per share, which were all subscribed and fully paid up on application.

The Journal, Cash Book, and Ledger entries would be as under—

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19.. Jan. 21	Ordinary Shareholders	90,000	–	–			
	To Ordinary Share Capital				80,000	–	–
	80,000 Shares of £1 each.						
	To Ordinary Share Premium				10,000	–	–
	2s. 6d. per share on 80,000 shares						

CASH BOOK

Dr

Date	Receipts	Bank £	s.	d.
19.. Jan. 21	To Ordinary Shareholders	90,000	–	–

GENERAL OR IMPERSONAL LEDGER

ORDINARY SHAREHOLDERS

Dr.		£	s	d.		Cr.	£	s.	d.
19.. Jan. 21	To Ordinary Share Capital	80,000	–	–	19.. Jan. 21	By Cash	90,000	–	–
21	,, Ordinary Share Premium	10,000	–	–					
	£	90,000	–	–		£	90,000	–	–

ORDINARY SHARE CAPITAL

Dr.						Cr.	£	s.	d.
					19.. Jan. 21	By Ordinary Shareholders	80,000	–	–

ORDINARY SHARE PREMIUM

Dr.						Cr.	£	s.	d.
					19.. Jan. 21	By Ordinary Shareholders	10,000	–	–

Worked Example (2)

A joint stock company issued 80,000 preference shares of £1 each at 22s. 6d. per share, payable 5s. per share on application, 7s. 6d. per share on allotment (including the premium), and 5s. per share on each of two later calls.

The Journal, Cash Book, and Ledger entries would be as follows—

JOURNAL

		Dr £	s	d.	Cr £	s.	d.
19.. Jan 21	Application Account (Preference Shares)	20,000	–	–			
	To Preference Share Capital				20,000	–	–
	5s per share on 80,000 shares						
Feb. 21	Allotment Account (Preference Shares)	30 000	–	–			
	To Preference Share Capital				20 000	–	–
	5s. per share on 80,000 shares						
	To Preference Share Premium				10,000	–	–
	2s. 6d per share on 80,000 shares						
Mar. 21	First Call Account (Preference Shares)	20,000	–	–			
	To Preference Share Capital				20,000	–	–
	5s per share on 80,000 shares						
May 21	Second Call Account (Preference Shares)	20,000	–	–			
	To Preference Share Capital				20,000	–	–
	5s. per share on 80,000 shares.						

Dr CASH BOOK

Date	Receipts	Bank £	s.	d.
19.. Jan. 21	To Application Account (Preference Shares)	20,000	–	–
Feb. 27	,, Allotment Account (Preference Shares)	30,000	–	–
April 27	,, First Call Account (Preference Shares)	20,000	–	–
June 27	,, Second Call Account (Preference Shares)	20,000	–	–
	£	90,000	–	–

GENERAL OR IMPERSONAL LEDGER

Dr. APPLICATION ACCOUNT (PREFERENCE SHARES) *Cr*

		£	s.	d.			£	s	d
19.. Jan 21	To Preference Share Capital	20,000	–	–	19.. Jan 21	By Cash	20,000	–	–

Dr ALLOTMENT ACCOUNT (PREFERENCE SHARES) *Cr.*

		£	s	d			£	s	d.
19.. Feb 21	To Preference Share Capital .	20,000	–	–	19.. Feb. 27	By Cash	30,000	–	–
21	,, Preference Share Premium .	10,000	–	–					
	£	30,000	–	–		£	30,000	–	–

Dr. FIRST CALL ACCOUNT (PREFERENCE SHARES) *Cr.*

		£	s	d			£	s	d.
19 . Mar. 21	To Preference Share Capital .	20,000	–	–	19.. April 27	By Cash	20,000	–	–

Dr. SECOND CALL ACCOUNT (PREFERENCE SHARES) *Cr.*

		£	s	d			£	s.	d.
19.. May 21	To Preference Share Capital .	20,000	–	–	19.. June 27	By Cash	20,000	–	–

Dr. PREFERENCE SHARE CAPITAL *Cr.*

							£	s	d.
					19.. Jan 21	By Application . . .	20,000	–	–
					Feb 21	,, Allotment Account . .	20,000	–	–
					Mar 21	,, First Call Account . .	20,000	–	–
					May 21	,, Second Call Account .	20,000	–	–
						£	80,000	–	–

Dr. PREFERENCE SHARE PREMIUM *Cr.*

							£	s.	d.
					19.. Feb. 21	By Allotment Account . .	10,000	–	–

Application and Allotments Book

When the application forms are received, a record must be made of their contents in the Application and Allotments Book.

This is a book ruled with numerous columns to record the names, addresses, and occupations of all applicants for shares, the number of shares applied for, the amount deposited on application, the number of shares actually allotted, the amounts due on allotment, and the amounts received on allotment.

In many companies the applications are entered on separate sheets, one for each letter of the alphabet; and when complete, these application sheets are bound together in book form, and called the Application and Allotments Book. The alphabetical arrangement is, of course, a very great convenience for subsequent reference.

Although further amounts may be payable on the shares after allotment, such particulars are usually recorded in a separate book; for the shares may soon change hands, and the original allottee may not therefore be the person liable to pay the call money.

The application money is usually payable to the company's bankers. The application letters and the Pass Books are obtained daily from the bankers, and the particulars entered on the appropriate sheets. When the lists are closed and it is found that the minimum subscription has been received, the directors then proceed to allotment.

Resolutions are passed by the directors, setting forth the various allottees and the distinctive numbers of their shares (for each share must have a distinguishing number). The secretary then sends out the necessary letters of allotment asking for payment of the further amount due on the shares.

Separate Application and Allotment Books are kept for the different kinds of shares.

A specimen ruling of an Application and Allotment Book is given in the next column.

The bank also keeps a separate Pass Book for the receipt of each class of shares, the totals being finally transferred to the company's General Bank Account.

Shareholders' Cash Books

From the separate Pass Books are written up the Shareholders' Cash Books.

These are subsidiary Cash Books used for the purpose of recording in detail the various sums of money received from the shareholders.

APPLICATION AND ALLOTMENTS BOOK (ORDINARY SHARES)

No. of Application	Name	Address	Occupation	No of Shares Applied for	Amount Paid on Application			No. of Shares Allotted	Distinctive Numbers		Share Ledger Folio	Amount due on Application and Allotment			Balance due on Allotment			Cash Paid on Allotment			Cash Returned			No of Share Certifiate	Remarks
					£	s	d		From	To		£	s	d	£	s	d	£	s.	d	£	s	d		

Number of Certificate } ..

Form No. 45.

"THE COMPANIES ACT"

A Companies' Fee Stamp of 5s. must be impressed here

RETURN OF ALLOTMENTS

of

THE WESTERN MANUFACTURING COMPANY, LIMITED

made the†.... .. .. day of .. . ., 19..

Made pursuant to the Companies Act . .

(To be filed with the Registrar of Joint Stock Companies within one month after the Allotment is made.)

---

* Distinguish between Preference Ordinary, or other descriptions of Shares.

*Number of the...... .. . . Shares allotted payable in Cash . . . .

*Number of the...... . . . . Shares allotted payable in Cash . . . .

*Nominal Amount of the . . . .Shares so allotted . . . . £ . . .. . .

*Nominal Amount of the. . . Shares so allotted . . . . £ . . .. . .

*Amount paid or due and payable on each such . . Share . . . . £ .

*Amount paid or due and payable on each such .. . Share . . . . £ .

Number of Shares allotted for a consideration other than Cash ....

Nominal amount of the shares so allotted . . £ . . .

Amount to be treated as paid on each such Share . £ . . . . .

The Consideration for which such Shares have been allotted is as follows—

. .. .

. . . .

. . . .

† NOTE. In making a return of Allotments it is to be noted that—

1. When a return includes several Allotments made on different dates, the dates of only the first and last of such Allotments should be entered at the top of this page, and the registration of the return should be effected within one month of the first date.
2. When a return relates to one Allotment only, made on one particular date, that date only should be inserted and the spaces for the second date struck out and the word "made" substituted for the word "from" after the name of the Company.

NAMES, ADDRESSES, AND DESCRIPTIONS OF THE ALLOTTEES IN THE WESTERN MANUFACTURING COMPANY, LIMITED

Surname	Christian Name	Address	Description	Number of Shares Allotted		
				Preference	Ordinary	Deferred

(Signature)

(Officer)

Separate Cash Books are kept to show the receipts from each class of shareholders, and the necessary particulars are obtained daily from the separate Pass Books usually kept by the bank. From these Cash Books the receipts are posted to the shareholders' accounts in the Share Ledger. The totals of these subsidiary Cash Books are finally transferred to the General Cash Book.

In small companies the details are often recorded in an inner column in the General Cash Book itself, and the total for the day extended into the Bank column.

The following is a specimen ruling of a Shareholders' Cash Book—

SHAREHOLDERS' CASH BOOK

Dr (ORDINARY SHARES) *Cr.*

Date	Receipts	Fol	Amount	Date	Payments	Fol	Amount

Return of Allotments

As soon as any shares have been allotted, and within one month of the date, the company must render to the Registrar of Companies a return of the allotments, stating the number and nominal amount of the shares allotted, with the names, addresses, and descriptions of the persons receiving the allotment, and the amount, if any, paid or due to be paid on each share. Where shares have been allotted as fully or partly paid up otherwise than in cash, a contract in writing constituting the title of the allottee must be filed with a return stating the number and nominal amount of the shares allotted, the extent to which they are to be treated as paid up, and the consideration for which they have been allotted. With this return also, must be submitted stamped contract of sale, contract for services, or other consideration in respect of which the allotment is being made. If the contract constituting the allottee's title has not been made in writing, the prescribed particulars of the contract, stamped with the same stamp duty as would have been payable if the contract had been reduced to writing, must be filed with the Registrar of Companies. Failure to do any of these things renders the officials of the company who know of the failure, liable to a fine not exceeding £50 for every day during which the default continues.

A specimen of the form to be used is given on pp. 501–2.

Shares Over-subscribed, Return of Deposits

When conditions are favourable it frequently happens that shares are "over-subscribed"; that is, more people apply for shares than there are shares to allot. This is particularly the case when certain kinds of shares are "booming," as, for instance, the boom in industrial shares.

Those applicants who are allotted a smaller number of shares than they applied for (say application for 150 at 5s. but allotted only 100), have the money overpaid on application transferred to the credit of the amount due from them on allotment, and hence they pay on allotment only the balance still remaining. Thus, supposing in the instance mentioned, another 5s. per share was payable on allotment, the said applicant would have to pay on allotment not £25 (5s. per share on 100 shares) but only £12 10s. (£25 *less* 50 at 5s., or £12 10s. previously overpaid).

Those applicants to whom no shares are allotted have their deposits returned in full. In the first case, a Journal entry would be required debiting Application Account and crediting Allotment Account, with the total of the amounts overpaid on application. In the second case, a Cash Book entry would be necessary, "*By Application Account* (*Return of Deposits to Non-allottees*)." A Letter of Regret is also usually sent, as shown on the next page.

WESTERN MANUFACTURING COMPANY, LIMITED

(Incorporated under the Companies Act ..)

LETTER OF REGRET

No. . . .. REGISTERED OFFICE,

.... .19..

SIR OR MADAM,

With reference to your application for Shares in the above Company, I beg to inform you that owing to the over-subscription of same, the Directors regret they are unable to make you any allotment.

I enclose herewith a cheque for £ : : , being the amount deposited by you on application for the said shares, and shall be obliged if you will kindly sign and return the Receipt at the foot of this form.

Yours faithfully,

To ....

....

.... *Secretary.*

....

. . . .

WESTERN MANUFACTURING COMPANY, LIMITED

RECEIPT

No..... ....

Date . .. .19..

RECEIVED of the above-named Company the sum of... . . . .
being refund of amount paid on application for. . .. . Preference Shares in the above Company not allotted.

Signature. . ..... | Stamp | . .. .

£ : :

Restrictions on Commencement of Business : Trading Certificate

After the Return of Allotments has been made, the Registrar will consider whether a Certificate to Commence Business, or Trading Certificate, can be issued. But this can only be done on certain conditions being fulfilled.

(*a*) Shares held subject to the payment of the whole amount thereof in cash have been allotted to an amount not less in the whole than the minimum subscription ; and

(*b*) Every director of the company has paid to the company on each of the shares taken or contracted to be taken by him, and for which he is liable to pay in cash, a proportion equal to the proportion payable on application and allotment on the shares offered for public subscription, or in the case of a company which does not issue a prospectus inviting the public to subscribe for its shares, on the shares payable in cash ; and

(*c*) There has been filed with the Registrar of Companies a statutory declaration by the secretary or one of the directors, in the prescribed form, that the aforesaid conditions have been complied with ; and

(*d*) In the case of a company which does not issue a prospectus inviting the public to subscribe for its shares, there has been filed with the Registrar of Companies a statement in lieu of prospectus.

On the filing of the statutory declaration, and the statement in lieu of prospectus where necessary, the Registrar of Companies issues a certificate that the company is entitled to commence business. This section does not apply to a *private* company nor, according to the Companies Act, 1928, to a company not having a share capital.

CHAPTER XXXIII

JOINT STOCK COMPANIES—(*contd.*)

Statutory Meeting and Statutory Report

AFTER the Trading Certificate has been received, the Statutory Meeting must be held, for by the Companies Acts every company limited by shares, and which was registered after the 1st of January, 1901, must, within a period of not less than one month nor more than three months from the date at which the company is entitled to commence business, hold a general meeting of the members of the company, which is to be called the Statutory Meeting.

It is proposed by the new Companies Act, to abolish this meeting in the case of a private company, and to extend Section 65 of the 1908 Act, by including Companies Limited by Guarantee, and having a Share Capital within the purview of the section.

The directors must also, at least seven days before the day on which the meeting is held, forward a report to every member of the company and to every other person entitled under the Act to receive it. This is called the Statutory Report, and must be certified by not less than two directors of the company, or where there are less than two directors, by the sole director and manager. It must state—

(*a*) The total number of shares allotted, distinguishing between shares allotted as fully paid and those partly paid otherwise than in cash, and also give, in the case of shares partly paid up, the extent to which they are so paid up, and in either case the consideration for which they have been allotted.

(*b*) The total amount of cash received by the company in respect of all the shares allotted, distinguishing between them as in (*a*).

(*c*) An account of the receipts of the company on account of its capital, whether from shares or debentures, and of the payments made from it, up to a date within seven days of the date of the Report, exhibiting under distinctive headings the receipts of the company from shares and debentures and other sources, the payments made from them, and particulars concerning the balance remaining in hand. Also an account or estimate of the preliminary expenses of the company must be included.

(*d*) It must state the names, addresses, and descriptions of the directors, auditors (if any), managers (if any), and secretary of the company, and also

(*e*) Particulars of any contract, the modification of which is to be submitted to the meeting for its approval, together with the particulars of the modification or proposed modification.

In the case of a public company a copy of this Statutory Report must be filed with the Registrar of Companies, but the provisions as to the forwarding and filing of the Statutory Report do not apply to a *private* company.

A specimen Statutory Report is given on page 507.

Making Calls, Call Notice

The prospectus usually states that calls for further instalments on shares will be made at certain specified dates after the shares have been allotted, or at such other times as the directors may appoint in pursuance of the powers conferred upon them by the articles of association.

A resolution authorizing the call is passed by the Board of Directors, and is duly entered in the Directors' Minute Book; although in some cases the articles provide that such calls can only be made with the consent of the shareholders in general meeting.

After the resolution of the directors has been passed making a further call of capital, the particulars of the amount due from each shareholder are then entered in a special tabular Call Book. Separate columns are provided to show the amount due and the amount actually received.

Letters of Call or Call Notices are sent to each shareholder concerned. The money is generally payable within 10 or 20 days of the date of the call being made; in small companies it is often payable direct to the company at their registered office, but in the case of large companies, the money is paid to the company's bankers, who keep a separate Call Pass Book. From this book the daily amounts will be entered in the Shareholders' Cash Book, and posted to the Share Ledger.

A specimen of a Call Notice is given on page 508.

WESTERN MANUFACTURING COMPANY, LIMITED

Stamp 5/-

STATUTORY REPORT OF THE DIRECTORS

PURSUANT to the Companies Act, your Directors beg to report as follows—

(*a*) The total number of Shares allotted is 70,000, of which 30,000 are allotted as fully paid up, in part consideration of the goodwill and assets of the business, and upon each of the remaining Shares the sum of 10s has been paid in Cash.

(*b*) The total amount of cash received by the Company in respect of the Shares issued wholly for Cash is £30,000.

(*c*) The Receipts and Payments of the Company on Capital Account to 15th May, 19.., are as follows—

Particulars of Receipts	£	s	d	Particulars of Payments	£	s.	d
To Application and Allotment instalments—				By Vendor (part payment of purchase price) . . .	15,000	–	–
Ordinary Shares . . .	10,000	–	–	,, Preliminary Expenses . .	4,000	–	–
Preference Shares . . .	10,000	–	–	,, Printing and Stationery . .	200	–	–
Debentures	10,000	–	–				
	£30,000	–	–		£19,200	–	–

The Preliminary Expenses of the Company are estimated at £5,000.

(*d*) The following are the Names, Addresses, and Descriptions of the Directors, Auditors, Manager, and Secretary of the Company—

DIRECTORS

T. Franks, Engineer, 21 Penley Street, Bloreheath.
R. Thomas, Solicitor, 12 Luke Street, Mumford.
A. Cooper, Gentleman, 2 Cedars Row, Penge.
F. James, Gentleman, 16 Park Square, Loxley.

AUDITORS

Sharpe & Sons, Chartered Accountants, 141 Temple Road, Finsbury, London, E.C.2.

MANAGER

T. Franks, Engineer, 21 Penley Street, Bloreheath.

SECRETARY

Arthur Derwent, Chartered Secretary, 98 Western Park Road, London, S.W.7.

(*e*) Particulars of Contract, the modification of which is to be submitted to the meeting for its approval together with the particulars of the modification or proposed modification:

We hereby certify that this Report is correct.

T. FRANKS }
R. THOMAS } *Directors.*

AUDITORS' REPORT

We hereby certify that so much of this Report as relates to the Shares and Debentures allotted by the Company and to the Cash received in respect of such Shares and Debentures, and to the Receipts and Payments of the Company on Capital Account is correct.

SHARPE & SONS, }
Chartered Accountants, } *Auditors.*

Dated this 15th day of May, 19..

WESTERN MANUFACTURING COMPANY, LIMITED

(Incorporated under the Companies Act .... .)

NOTICE OF CALL

FIRST CALL OF 5s. per SHARE on PREFERENCE SHARES

(Making per share called up)

No. ... . . *Registered Office,*

... . ., 19..

Sir or Madam,

I beg to give you notice that a First Call of 5s. per share on the Preference Shares has been made by the Board of Directors in accordance with the terms of the Prospectus.

The amount payable by you in respect of the . ... shares in this Company of which you are the registered holder is £ : : , and I have to request that you will be good enough to pay this sum to the Company's Bankers, *The Reliable Bank, Limited, Finsbury, London, W.C.*, on or before the . .... instant.

Yours faithfully,

To .. ..

....

. .. .

. . . . *Secretary.*

This form must be forwarded ENTIRE, together with remittance, to the Company's Bankers.

. . . .

WESTERN MANUFACTURING COMPANY, LIMITED

BANKERS' RECEIPT

No. .. ..

RECEIVED this . . . .day of . . . . 19..

from . . . .

the sum of . . . .

being 5s. per share payable on First Call on . .. . Preference Shares in the above Company.

FOR THE RELIABLE BANK, LIMITED.

. ... Stamp. ....

£ : :

Cashier.

This Receipt, when returned by the Bankers, must be preserved and exchanged in due course for Share Certificate.

The following is a specimen of a Call Book—

CALL BOOK. (PREFERENCE SHARES)

First Call of 5s. per Share made .. . , 19 ., due . . . , 19..

Share Ledger Folio	Name	No of Shares held	Amount due			Cash Paid					Calls Paid in Advance			Arrears							Remarks
						Date	Folio	Amount						Amount			No of Days	Interest			
			£	s	d			£	s	d.	£	s	d	£	s	d		£	s	d	

One of these would be required for each kind of Share : Ordinary, Preference, etc
The Cash is entered up from the subsidiary Shareholders Cash Book.

Interest on Calls in Arrear

The Call Book usually contains columns for Interest, because to those shareholders who are not able to pay the full amount due from them within the time stated in the Call Notice, an extension of time is usually granted, on condition that they pay interest up to the actual time of payment.

The Articles of Association usually give the directors power to charge interest on calls not paid within the specified time. The Companies Acts, in the following article, says—

" If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest upon the sum at the rate of five pounds per cent per annum from the day appointed for the payment thereof to the time of the actual payment, but the directors shall be at liberty to waive payment of that interest wholly or in part."

The shareholders will be debited, and an Interest Receivable Account credited by means of a Journal entry, with the amounts due, the latter account being eventually closed to Profit and Loss as a profit. The debit entry would be posted in detail to the shareholders' accounts in the Share Ledger, and in total to an Outstanding Interest Account in the General or Impersonal Ledger. An example of such entry is given below.

The Outstanding Interest would, if not received by balancing time, appear on the assets side of the Balance Sheet ; and the Calls in Arrear would be deducted from the Issued Capital on the liabilities side.

JOURNAL

						Dr.			*Cr.*		
19..						£	s.	d.	£	s.	d.
Jan. 25	Outstanding Interest Account				G. L 78	4	13	4			
	To Interest Receivable				G. L. 89				4	13	4
	Smith, F. H.	£1	10	10	S. L. 65						
	Jones, H. O.	1	8	7	S. L. 54						
	Roberts, F. K..	1	13	11	S. L. 39						
	for Interest on Calls in arrear.										

Interest on Calls in Advance

Some shareholders do not wish to be troubled by constant calls, and so, when they are asked for further money they pay their shares right up in full at once. The Articles of Association generally give the directors power to pay interest on calls received in advance.

The Companies Acts give the following model article—

" The directors may, if they think fit, receive from any member willing to advance the same all or any part of the moneys uncalled and unpaid upon any shares held by him; and upon all or any of the moneys so advanced may (until the same would, but for such advance, become presently payable) pay interest at such rate (not exceeding, without the sanction of the company in general meeting, 6 per cent) as may be agreed upon between the member paying the sum in advance and the directors."

Usually an entry on the payments side of the Cash Book, " *By Interest on Calls in Advance*," is all that is required. The details of the shareholders' names and amounts can be shown in an inner column, and only the total extended into the Bank column. This total would be posted to the debit of an Interest Payable Account, which would be closed at balancing time to the debit of Profit and Loss Account. On the Balance Sheet, the Calls Paid in Advance are shown as an addition to the company's Capital.

When all the calls have been made, it is usual for a company to issue to each shareholder a Share Certificate, although sometimes they are issued before the calls are made.

Share Certificate

A Share Certificate is a document issued by limited companies to their shareholders, stating

---

No. . . . . .

WESTERN MANUFACTURING COMPANY, LIMITED

(Incorporated under the Companies Act . .. ...)

CAPITAL £70,000

50,000 ORDINARY SHARES OF £1 EACH.
20,000 6% PREFERENCE SHARES OF £1 EACH.

SHARE CERTIFICATE

THIS IS TO CERTIFY that. ... .

of .. ..

is the Registered Proprietor of .. . . 6% Preference Shares of £1 each, numbered .. .. to . . . . .inclusive in the WESTERN MANUFACTURING COMPANY, LIMITED, subject to the provisions of the Memorandum and Articles of Association of the Company, and that there has been paid in respect of each of the said Shares, the sum of

. .. .

.. ..

GIVEN UNDER THE COMMON SEAL of the Company this day of

... . .19

....
.... } *Directors.*

Seal.

.. . .

Secretary.

No Transfer of the above Shares can be made without the production of this Certificate.

WESTERN MANUFACTURING COMPANY, LIMITED

(Incorporated under the Companies Act)

ISSUE OF £20,000 DEBENTURES in BONDS of £100 EACH, bearing interest at £6 per cent per annum on the amount for the time being paid up thereon.

SCRIP CERTIFICATE

Impressed 2d. Stamp.

No . *236*

THIS IS TO CERTIFY that

of

is entitled upon payment of all instalments when due, and subject to surrendering all receipts for such instalments, and also this SCRIP CERTIFICATE, to . . . DEBENTURES of £ each in the above-named Company.

On completion of the payments this Certificate is to be surrendered to the Company to be exchanged for definitive Debentures.

This Certificate is issued subject to the conditions contained in the Prospectus dated the day of . 19 .

GIVEN UNDER THE COMMON SEAL of the Company this . . .. . day of . 19 . ..

. . . . } *Directors.*

Seal.

. . . .

Secretary.

N B —The instalments paid will be indorsed on the back hereof by the Company on production of the Bankers' receipts for same

that the person named therein is the holder of so many shares in the company, and that so much per share has been paid up on them.

Although a document under seal, it does not require a stamp like a "scrip" certificate does. Generally speaking, share certificates are made up in book form with counterfoils like cheques. A perforation enables the certificate to be detached, and ensures a counterfoil remaining in the book; on this counterfoil short particulars are entered for reference.

By the Companies Acts, every company must within *two months* after the allotment of any of its shares, debentures, or debenture stock, and within two months after the registration of the transfer of any such shares, debentures, or debenture stock, complete and have ready for delivery the certificate of all shares, the debentures, and certificate of all debenture stock allotted or transferred, unless the conditions of issue of the shares, debentures, or debenture stock otherwise provide.

A certificate under the common seal of the company, specifying any shares or stock held by any member is prima facie evidence of the title of the member to the shares or stock.

Each share certificate has a distinctive number, which is generally recorded in a special column in the Allotment Book, and often in the Share Ledger itself. The certificates are usually issued in exchange for the allotment letters and the bankers' receipts for instalments paid on application and allotment.

Should a call be made after the certificate has been issued, the amount of the call so paid is endorsed by the Company on the share certificate on production of the bankers' receipt for the payment of the call money. The distinctive numbers of the shares held are generally mentioned in the body of the certificate, but sometimes in the margin, in order that several groups of shares can be covered by the one certificate.

A company usually takes power in its articles to issue duplicate certificates in case the originals get lost, defaced, or destroyed. The holder is required to pay a small fee, and also to give the company a letter of indemnity.

A specimen of a share certificate is given on page 510.

Scrip Certificate

The word "scrip" is a Stock Exchange contraction for the word "subscription." A subscriber to an application form receives, if successful, an allotment letter. As soon as the allotment money is paid, the scrip certificate is issued. It specifies the number of shares or bonds held, the various instalments due, and the date of receipt of each instalment. On completion it is exchanged for the share certificate or bond.

Although the word "scrip" signifies merely a *provisional* certificate, the terms "scrip" and "share" certificate are often used as if they are identical. A scrip certificate entitling a person *to become* the proprietor of shares or bonds requires an impressed 2d. stamp.

A specimen of a Scrip Certificate is given on page 511.

On the back of the Scrip Certificate will appear the dates of the various payments, similar to the following—

Date	Instalment	Rate	Amount paid £	s	d	Signature of Secretary
19..			£	s	d	
Feb 10	*Application*	10%	10	–	–	*A. Bevan*
25	*Allotment*	20%	20	–	–	*A. Bevan*
May 20	*First Call*	30%	30	–	–	*A. Bevan*
Sept. 20	*Second Call*	40%	40	–	–	*A. Bevan*

Register of Members and Share Ledger

It is necessary, of course, that a record should be kept of each shareholder's transactions with the company in connection with his shares, and this is done in the Register of Members and Share Ledger. This is one of the statutory books which a limited company is compelled by law to keep. It must contain—

(*a*) The names, addresses, and occupations (if any), of the members, and in the case of a company having a share capital, a statement of the shares held by each member, distinguishing each share by its number, and the amount paid,

or agreed to be considered as paid on the shares of each member ;

(*b*) The date at which each person was entered in the register as a member ;

(*c*) The date at which any person ceased to be a member.

As a matter of fact, however, many other particulars are entered in the book, which is more frequently termed the Share Ledger. In large companies, separate share ledgers are kept for ordinary, preference, and deferred shares. No trusts are allowed by law to be entered on the Register. The Register must be kept at the registered office of the company, and must, for not less than two hours each day, be open to the inspection of any member gratis, and to the inspection of any other person on payment of a fee not exceeding 1s. Any member or any other person may require a copy of the register, or of any part of it, or of the List and Summary required by the Act, or any part of it, on payment of the prescribed fee. A company may, on giving notice by advertisement, close the register for any time or times not exceeding thirty days in each year. The Court has power to rectify the register in case of mistakes or omissions. A company whose objects comprise transactions in any of the colonies, may take power in its articles to keep a colonial register of its members in that colony, and such register is deemed to be a part of its principal register. A duplicate of such register must, however, be kept at the registered office.

The " date of entry as a member " is usually the date of allotment (or transfer, if such be the case) ; though in one law case it was decided that a person was not a member until his name was actually entered in the Register of Members.

Where the shares are issued fully paid, the Share Ledger will contain only columns for statistical records ; but where shares are issued only partly paid up, the Share Ledger will also contain a Cash Account to record moneys due to and received by the company. An alphabetical index in the front part of the Ledger itself, or an external card index, will afford ready reference to the accounts of the individual shareholders.

The Share Ledger will be entered up in stages from the Application and Allotments Book, the Call Book, and the Register of Transfers ; while the Cash items will be posted from the subsidiary Shareholders' Cash Book. A Balance Column is usually provided ; and if each fresh transaction is entered on a separate line and the balance amended accordingly, it is thus possible to see at any time the number of shares held and the amount paid up on them. This greatly facilitates the preparation of the Annual List and Summary mentioned later on.

A specimen ruling of a Share Ledger is given on pages 514–15, and some *pro forma* entries have been made therein to show clearly its working.

It will be noticed in the Share Ledger that there is a series of columns for " shares transferred." This is because every shareholder has the right to sell or transfer his shares.

Transfer of Shares

Generally speaking, a shareholder who wishes to transfer any of his shares must execute a transfer deed. With a few exceptions this is subject to an *ad valorem* stamp duty, which is payable by means of an impressed stamp.

The instrument of transfer of any share in a company must be executed both by the transferor and transferee, the transferor being deemed to remain a holder of the share until the name of the transferee is entered in the Register of Members in respect of the share.

The form of transfer is very often specified in the Articles of Association, or any other usual or common form may be used.

The directors of a company may decline to register any transfer of shares, not being fully-paid shares, to a person of whom they do not approve, and may also decline to register any transfer of shares on which the company has a lien. The directors may also suspend the registration of transfers during the fourteen days immediately preceding the ordinary general meeting in each year. They may also decline to recognize any instrument of transfer unless—

(*a*) a fee not exceeding 2s. 6d. is paid to the company in respect thereof and

(*b*) the instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as they may reasonably require to show the right of the transferor to make the transfer.

A specimen of a Transfer Deed is given on page 516.

Registration of Transfers, Certification

A transfer deed must be forwarded, together with the certificate for the shares concerned, to the company's registered office for approval and registration. The distinctive numbers of the shares mentioned in it are compared with the numbers stated in the share certificate ; the

65

REGISTER OF MEMBERS AND SHARE

Name: *Miller, Frank T.* Occupation: *Gentleman*

Address: 174 *Lome Square, Pixley, London, S.E.*

Dr. CASH ACCOUNT *Cr*

Date	Particulars	Fol	Amount called up per Share			Total Amount called up			Date	Particulars	Fol.	Total Amount paid up		
			£	*s*	*d*	£	*s.*	*d*				£	*s*	*d.*
19..									19 .					
Jan. 12	To Appl and Allot	14		10	–	1,000	–	–	Jan. 1	By Cash . .	85	312	10	–
									19	,, Cash . .	89	687	10	–
						£1,000	–	–				£1,000	–	–
May 10	To First Call .	56		5	–	500	–	–	May 20	By Cash . .	92	250	–	–
June 25	,, Interest . .	72				1	1	3	June 30	,, Cash . .	99	250	–	–
										,, Cash (Interest)	99	1	1	3
						£501	1	3				£501	1	3

LEDGER PREFERENCE SHARES) 65

Date entered as a Member : *January 12th, 19..*
Date ceased to be a Member :

SHARES ACCOUNT

Shares Acquired								Shares Transferred								Balance			
Date	Fol.	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up			Date	Fol.	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up			No. of Shares	Amount paid up		
19..					£	s.	d.						£	s	d.		£	s.	d.
Jan 12	14	2,000	1	2,000												2,000	1,000	–	–
																2,000	1,500	–	–
								19..											
								June 10	58	500	1	500	375	–	–	1,500	1,125	–	–
								July 20	59	500	501	1,000	375	–	–	1,000	750	–	–

SHARE TRANSFER

Stamp

I, ...

of . . . .

. .. .

in consideration of the sum of . . .

. . ..

paid to me by . . . .

of . . ..

. . hereinafter called the said Transferee ..

DO hereby bargain, sell, assign, and transfer to the said Transferee.. . . ..

. .. .shares of £... each, . per share paid, numbered to inclusive, of and in the undertaking called the . .... Company, Limited.

TO HOLD unto the said Transferee .. ..

his executors, administrators, and assigns subject to the several conditions on which I held the same at the time of the execution hereof. And I the said Transferee . .. . . . do hereby agree to take the said shares subject to the conditions aforesaid.

AS WITNESS OUR HANDS this . . day of

in the Year of Our Lord, One thousand nine hundred and

Signed, sealed, and delivered by the above-named

. . . .

in the presence of

WITNESS
Signature . .
Address. .

Occupation

Signature

. . . .

(L S)

Signed, sealed, and delivered by the above-named

....

in the presence of

WITNESS
Signature . . . .
Address... . . . .
. . . .
Occupation . .

Signature

. . . .

(L S)

stamp duty, date, and signatures, are also examined. The transferor's signature is compared with his signature on previous transfers or on application forms.

In some companies, as a precaution against forgery, the transferor is specially notified that such a transfer of his shares has been lodged with the company. If the directors approve the transfer when it is submitted to them, a resolution to this effect is passed and recorded in the Directors' Minute Book. The transfers are then entered in the Register of Transfers, and a new share certificate made out for the transferee.

Where the shares transferred form only a part of the holding, some companies issue a balance certificate to the transferor, while other companies note the shares transferred on the margin or the back of the original certificate. A fee of 2s. 6d. is usually charged in respect of each transfer. The Register of Transfers is generally initialled by a director at the date up to which the transfers have been passed by the board.

To facilitate stock exchange business there has grown up the practice of certification of transfers. A seller who wishes to dispose of only part of his holding of shares cannot hand over to the buyer his share certificate along with the transfer deed; so he lodges his certificate with the company. The secretary then writes or stamps on the transfer a note that a certificate for so many shares, numbered so and so, with so much per share paid up, has been duly lodged at the company's registered office.

The object of this procedure is to satisfy the transferee that the transferor can give a good title to the shares mentioned in the transfer. The buyers and their brokers then act on the faith of this certification. The old certificate is cancelled, a balance certificate issued to the transferor, and a new certificate sent to the transferee, as soon as the transfer is approved by the board.

The following is a specimen ruling of a Register of Transfers—

REGISTER OF TRANSFERS

No of Transfer	Date Transfer Registered	Transferor's		Transferee's				Shares Transferred						Remarks
		Name	S.L. Folio	Name	Address	Occupation	S L Folio	No.	From	To	Amount Paid Up			
											£	s	d	

One of these would be required for Ordinary Shares and one for Preference Shares.

Conversion of Shares into Stock

When shares are fully paid up they are frequently converted into stock so as to make them more easily transferable. Shares are transferable only in their entirety, but stock is transferable in multiples of a pound. By the Companies Acts a company limited by shares, if so authorized by its articles, may alter the conditions of its memorandum, that is to say, it may—

(*a*) Increase its share capital by the issue of new shares of such amount as it thinks expedient; or

(*b*) Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares; or

(*c*) Convert all or any of its paid-up shares into stock, and re-convert that stock into paid-up shares of any denomination.

(*d*) It may by special resolution, subdivide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum, in such a way, however, that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of

the share from which the reduced share is derived.

(*e*) It may also cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

Since the new Companies Act gives a new definition to a special resolution, these powers must be exercised by the company in General Meeting.

Every copy of the memorandum issued subsequently must be in accordance with the alteration. Notice of any such increase, consolidation, division, conversion, or re-conversion must be given to the registrar of companies.

This notice must, by the new Companies Act, be filed within one month of the alteration.

Where any shares have been converted into stock, a register of such converted shares must be kept; and there must also be a register of stockholders. The following are specimen rulings of such books—

REGISTER OF SHARES CONVERTED INTO STOCK

Shares Converted							Stock Created			
Folio in Share Ledger	Name of Holder	No of Certificate	Amount	No of Shares	Inclusive Numbers		Folio in Stock Ledger	Amount	No of Certificate	Remarks
					From	To				
			£ s d					£ s d		

REGISTER OF STOCKHOLDERS

NAME ....

ADDRESS ....

....

OCCUPATION ....

Stock Acquired					Stock Transferred				Balance	
Date	Folio	Amount	No of Certificate	Transferor's Folio in Register	Date	Folio	Amount	Transferee's folio in Register	Date	Amount
		£ s. d.					£ s. d.			£ s. d.

Forfeiture of Shares

When a shareholder fails to pay the amount of the allotment or call instalments, the sum is for a time treated as Calls in Arrear. If after a further stipulated time the money is not then forthcoming, the directors usually have power conferred on them by the Articles of Association to declare such shares forfeited, and to appropriate to the company's own use whatever amounts may have been paid up on the said shares.

The provisions of Table A, which are the basis of most Articles of Association, are, in respect of forfeiture of shares, as follows—

24. If a member fails to pay any Call or instalment of a Call on the day appointed for payment thereof, the directors may, at any time thereafter during such time as any part of such Call or instalment remains unpaid, serve a notice on him requiring payment of so much of the Call or instalment as is unpaid, together with any interest which may have accrued.

25. The notice shall name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time appointed the Shares in respect of which the Call was made will be liable to be forfeited.

26. If the requirements of any such notice as aforesaid are not complied with, any Share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the directors to that effect.

27. A forfeited Share may be sold or otherwise disposed of on such terms and in such manner as the directors think fit, and at any time before a sale or disposition the forfeiture may be cancelled on such terms as the directors think fit.

28. A person whose Shares have been forfeited shall cease to be a member in respect of the forfeited Shares, but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were presently payable by him to the Company in respect of the Shares, but his liability shall cease if and when the Company receive payment in full of the nominal amount of the Shares.

30. The provisions of these regulations as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a Share, becomes payable at a fixed time, whether on account of the amount of the Share, or by way of premium, as if the same has been payable by virtue of a Call duly made and notified.

Although the ex-shareholder is, strictly speaking, still liable for the amount owing, the debt is, to all intents and purposes, a bad debt, and is, therefore, written off. The liability of the ex-shareholder ceases, however, as soon as the company receives payment in full of the nominal amount of the shares.

The only entry in the books of account will be a Journal entry debiting back to the Capital Account the amount called up on the shares. This debit entry will require a corresponding credit entry. As regards the credit side, the amount is split up into two parts. The amount actually paid on such shares on application and perhaps allotment is credited to a "Forfeited Shares Account," or a "Cash Paid on Forfeited Shares Account"; and the amount still owing on the shares is credited back to the Call or Calls Account (or perhaps Allotment Account).

For the purpose of illustration, let us suppose that a shareholder holds 200 Ordinary Shares of £1 each, 15s. per share called up, and that in consequence of his failure to pay the First Call of 5s. per share, the directors resolve to forfeit his shares.

The entry required would be—

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19..	Ordinary Share Capital Account (Full Amount Called Up)	150	–	–			
	To Forfeited Shares Account (Amount Actually Paid)				100	–	–
	,, First Call Account (Amount Due)				50	–	–
	200 Shares Nos. 768 to 967 forfeited for non-payment of First Call by resolution of the Board, No. 65, dated 17th February, 19..						

The Cash Paid on Forfeited Shares Account remains as a credit balance in the Ledger. The money is, of course, a profit to the company; but it is a capital profit, not a trading profit;

hence, it is not taken to the Profit and Loss Account, but appears on the liabilities side of the Balance Sheet until dealt with. Generally speaking, the balance remains in the Ledger until the shares are re-issued.

Forfeited Shares Re-issued

Forfeited shares are sometimes re-issued if the Articles of Association confer power on the directors to do so. Such shares may be issued at a reduced price, provided the reduction is not greater than the amount already paid on the shares, and which is thus available to make good the reduction; otherwise, it would be tantamount to issuing shares at a discount, which is illegal, unless sanctioned by the Court.

On the re-issue of forfeited shares, a Journal entry will be required, debiting the buyer of the shares and crediting Share Capital Account, any difference between the price paid for the shares and their capital value being made good from the Cash Paid on Forfeited Shares Account.

Thus, for example, suppose the directors of a company resolve to re-issue to G. Travers, 120 forfeited Preference Shares of £1 each, on which 15s. per share has been called up but only 10s. per share paid up, for £30, the entry would be as follows—

also be opened in the Share Ledger to show him as the holder of the 120 Preference Shares. Some accountants, however, object to a personal account in the General Ledger, and prefer to deal with the matter in an impersonal way, as shown at the top of page 521.

Had the shares been re-issued for, say, £45 instead of £60, then only £45 would have had to be taken from the Forfeited Shares Account. This would have left a credit balance of £15 still in the account, and this would have been closed to a Premium on re-issue of Shares Account, which would be dealt with in the same way as other premiums on shares.

In the Share Ledger itself a note will be made *in red ink* in the shareholder's account, stating that the shares are forfeited, and giving date and number of the directors' resolution, thus: "*Shares forfeited, D.M. No.* 36, 11*th Feb.*, 19 ."

Debentures

Debentures are of many kinds, but broadly speaking, they are legal instruments that mortgage the assets of a Joint Stock Company to the holder.

In great corporations such as railway companies they are regarded rather more as a class

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19.. Feb. 12	G. Travers	30	–	–			
	Cash Paid on Forfeited Shares Account	60	–	–			
	To Preference Share Capital Account				90	–	–
	Re-issue of 120 forfeited Shares (Nos 456 to 575) of £1 each, credited with 15s per share paid up, as per Resolution of the Board, No 36, 11th February, 19..						

Dr CASH BOOK

Date	Receipts	Bank £	s	d.
19.. Feb. 15	To G Travers	30	–	–

As £90 of Capital ($\frac{3}{4}$ of £120) is being issued for £30, the balance of £60 in the Forfeited Shares Account must be used to make good the deficit. An account for G. Travers would be opened in the General Ledger to record the debit and credit of the £30; an account would

of "share," differing from others in that the security is presumably greater and the profit dividend takes the form of fixed interest.

The smaller the company the less the respect in which the debenture is usually held, rather the less substantial seems the company that

Dr. CASH BOOK

Date	Receipts	Bank £	s	d.
19.. Feb. 15	To Forfeited Shares Re-issued Account	30	–	–

JOURNAL

Date		*Dr.* £	s	d	*Cr.* £	s	d.
19.. Feb 12	Forfeited Shares Re-issued Account	90	–	–			
	To Preference Share Capital Account				90	–	–
	Re-issue of 120 Shares of £1 each credited with 15s. per share paid.						
12	Forfeited Shares Account	60	–	–			
	To Forfeited Shares Re-issued Account				60	–	–
	Amount transferred to make good the reduction of £90 of Shares issued for £30						

issues it. A firm with a million capital may issue debentures up to the limit of what the market will absorb, with little loss of prestige: but the company with £1,000 capital issues debentures at the greatest risk to its credit.

The issue of debentures places a charge upon the assets of the firm and most of all upon the shares of the company. Yet the directors in taking such a step may be doing the best they can for the shareholders, as it may so happen that without the assistance of the debenture capital the whole business will come to a standstill, and the shareholders lose everything, whereas by the use of extra money to tide over a difficulty, the whole company may be made secure.

In the old days of Limited Companies it was possible for debentures to be issued without official information being registered, and in consequence it was impossible for traders to know to what extent a business might be mortgaged.

The power of issuing debentures is one that can be used in a most unfair and improper manner, but where the facts must be available for the scrutiny of interested persons, this does not really matter to any extent.

The objection to the secret debenture was that a firm giving credit had no power of measuring the cost of his action.

Cases are known where an unscrupulous person has made his business into a Limited Company, and fixing the value of the business at a fantastic figure has issued himself debentures charged upon the floating assets. Goods have been ordered heavily, a pretext has been found and the debenture holder has not only seized his old business, but the assets of the company which might consist of large stocks obtained on credit

As soon as such cases began to appear and the peril was realized, the law was altered.

Nowadays a trader may be able to do precisely the same thing, in the way of issuing debentures to himself, as protection for real or fantastic values that he has in the business.

But the whole trading community has now the power to become fully informed of the fact, and the more unreasonable the method that is adopted, the worse is the advertisement among the very persons with whom the trader naturally wishes to possess a good reputation.

Mortgages and Charges

Nowadays the firm invited to extend credit to a limited company can ascertain whether that company has issued debentures or not, and other vital facts affecting such issue, because it is the duty of the company to send to the Registrar of Companies for registration the particulars of every mortgage or charge created by the company, and also of the issues of debentures of a series, requiring registration under this section. Every company must keep a copy of every such instrument, and a copy of one such debenture, at its registered office.

These charges are—

(*a*) A mortgage or charge for the purpose of securing any issue of debentures; or

(*b*) A mortgage or charge on uncalled share capital of the company; or

(*c*) A mortgage or charge created or evidenced by an instrument which, if executed by an individual, would require registration as a bill of sale; or

(*d*) A mortgage or charge on any land, wherever situate, or any interest therein; or

(*e*) A mortgage or charge on any book debts of the company; or

(*f*) A floating charge on the undertaking or property of the company.

The new Companies Act adds three further items to the list, namely, (1) a mortgage or charge on calls made, but not paid; (2) a mortgage or charge on a ship or any share in a ship; (3) a mortgage or charge, on goodwill, on any patent or licence under a patent, on any trade-mark, or on any copyright or licence under a copyright.

Every such mortgage or charge created after the first of July, 1908, by a company registered in England or Northern Ireland, is void against the liquidator and any creditor of the company, so far as any security on the company's property is thereby conferred, unless the prescribed particulars of the mortgage or charge, together with the instrument (if any) by which the mortgage or charge is created or evidenced, are delivered to or received by the registrar of companies for registration in the manner required by the Act within twenty-one days after the date of its creation.

The registrar must keep, for each company, a register in the prescribed form of all the mortgages and charges created by the company after the first day of July, 1908, and requiring registration under this section, and shall, on payment of the prescribed fee, enter in the register the date of creation of the mortgage or charge, the amount secured by it, short particulars of the property mortgaged or charged, and the names of the mortgagees or persons entitled to the charge.

The register must be open to inspection by any person on payment of a fee not exceeding 1s. for each inspection.

The registrar must give a signed certificate of the registration of any mortgage or charge stating the amount thereby secured. The company shall cause a copy of every certificate of registration to be indorsed on every debenture or certificate of debenture stock which is issued by the company, and the payment of which is secured by the mortgage or charge so registered

Register of Mortgages and Charges

This is the statutory book previously referred to, and which every limited company is compelled by law to keep. In it must be entered all mortgages and charges specifically affecting the company's property, with in each case a short description of the property mortgaged or charged, the amount of the mortgage or charge, and (except in the case of securities to bearer) the names of the mortgagees or persons entitled thereto. A specimen ruling is given below.

Floating Charge, Trust Deed

Where the property mortgaged consists of assets other than freeholds and leaseholds, such as stock, book debts, etc., the charge is called a "floating charge," and the company

REGISTER OF MORTGAGES AND CHARGES

No. of Mortgage	Date Mortgage created	Mortgagee's		Amount of Mortgage or Charge			Particulars of Property mortgaged or charged	Rate of Interest	Remarks
		Name	Address						
				£	s.	d.			

DEBENTURE BOND

WESTERN MANUFACTURING COMPANY, LIMITED

(Incorporated under the Companies Act . . .)

Registered Office: 98 Western Park Road, London, S.W.7

ISSUE OF £20,000 FIRST MORTGAGE DEBENTURES,
in 200 Bonds of £100 each,
bearing Interest at the rate of £6 per cent per annum

No. 89 *£100*

DEBENTURE

1. The WESTERN MANUFACTURING COMPANY, LIMITED (hereinafter called "the Company"), hereby covenant to pay to the Registered Holder, on presentation of this Debenture, on the 1st day of July, 19.., or at such earlier date as the principal moneys hereby secured shall become payable, at the Registered Office of the Company or at their Bankers, the sum of One Hundred Pounds.

2. The Company will in the meantime pay to the Registered Holder for the time being Interest on the said £100 at the rate of £6 per cent per annum by equal half-yearly payments on the 30th of June and the 31st December in each year, the first of such payments to be made on the 31st December, 19...

3. The Company hereby charges, by way of floating security, all its real and personal property (present and future), its stock-in-trade, goodwill, and all the undertaking, also its uncalled Capital with the payment of the principal and interest.

4. The principal moneys hereby secured shall immediately become payable if the Company make default for a period of one calendar month in the payment of any interest hereby secured.

5. This Debenture is one of a series of 200 ranking equally, and is issued subject to the conditions endorsed hereon, which are deemed to be part of it.

GIVEN UNDER THE COMMON SEAL OF THE COMPANY this ....
day of . . . . . . , 19....

SEAL

.... } *Directors.*
....

....
Secretary.

is able to deal with its movable property in the ordinary course of business. The property of the company comprised in the charge is often conveyed by way of mortgage to a trustee or trustees for the debenture holders. The instrument is then termed a "trust deed," and reference to it must be made on each debenture covered by it.

Kinds of Debentures

As will be evident from the above paragraphs, debentures are mortgage loans to limited companies for a period of years. Interest at the agreed rate is payable half-yearly, and the principal itself is repayable at the end of the given time. Where the principal is not repayable, the debentures are called "irredeemable debentures," as in the case of railway companies.

Naked Debentures are those which give no security for the money lent. Mortgage Debentures are those which are charged on the whole or a portion of the company's assets. Floating Debentures are those which are secured by a floating charge on the company's property.

Bearer Debentures are those which are transferable by simple delivery, coupons for the interest being attached.

Registered Debentures are those which can only change hands by means of a transfer deed registered in the company's books. These sometimes have interest coupons payable to bearer.

A specimen of a Debenture Bond is given on page 523.

Debenture Applications, Allotments, and Calls

The procedure in connection with debentures is very similar to that in connection with shares. A printed form of application is filled up, and the necessary money forwarded to the company's bankers. The directors then proceed to allotment; and if any applications are not accepted, the deposit money is returned in full. The moneys due on allotment have then to be paid to the company or to its bankers.

As each debenture is represented by a separate bond, no debenture certificate is made out. Where the debentures are payable by various instalments, scrip certificates are issued, and on completion of the stipulated payments, these are exchanged for the debenture bonds. Calls and transfers are also dealt with in a similar manner to shares. The rulings of the various books are as follows—

DEBENTURE APPLICATION AND ALLOTMENTS BOOK

No of Application	Name	Address	Occupation	No of Debentures applied for	Amount paid on Application			No. of Debentures allotted	Distinctive Numbers		Debenture Ledger Folio	Amount due on Application and Allotment			Balance due on Allotment			Cash paid on Allotment			Cash Returned			Remarks
									From	To														
					£	s.	d.					£	s	d	£	s.	d.	£	s	d	£	s	d	

Dr. DEBENTURE HOLDER'S CASH BOOK *Cr.*

Date	Receipts	D L. Folio	Amount			Date	Payments	D.L Folio	Amount		
			£	s.	d.				£	s	d.

DEBENTURE CALL BOOK

Call of £ . per Debenture, made . . payable

Deb. Led. Folio	Name	Address	No of Debs. held	Amount Due on Call			Amount Paid on Call			Remarks
				£	s	d.	£	s	d	

DEBENTURE TRANSFER REGISTER

No of Transfer	Date Transfer Registered	Transferor's				Transferee's				Debentures Transferred						Remarks
		Deb Led fol	Name	Address	Occupation	Deb Led fol	Name	Address	Occupation	No	Distinctive Numbers		Amount paid up			
											From	To				
													£	s	d.	

REGISTER OF DEBENTURE HOLDERS

Name ... . Occupation . .. .

Address... .. . .

Debentures Acquired								Debentures Transferred or Redeemed								Balance			
Date	Folio	No of Debs	Distinctive Numbers		Amount paid up			Date	Folio	No of Debs	Distinctive Numbers		Amount paid up			No of Debs.	Amount paid up		
			From	To							From	To							
19..					£	s	d	19 .					£	s.	d		£	s	d

REGISTER OF DEBENTURE STOCKHOLDERS

Name

Address . ..

Occupation . .. .

Debenture Stock Acquired							Debenture Stock Transferred or Redeemed						Balance			
Date[1]	Folio[2]	No of Certificate	Amount			Trans-feror's Folio	Date[3]	Folio[4]	Amount			Trans-feree's Folio	Date	Amount		
19..			£	s	d		19.		£	s.	d.		19..	£	s	d.

[1] Of Allotment, or of Registration of Transfer (if so acquired)
[2] Of Debenture Stock Application and Allotment Book, or of Register of Transfers of Debenture Stock
[3] Of Registration of Transfer
[4] Of Register of Transfers of Debenture Stock, or of Cash Book.

Premiums on Shares and Debentures

Sometimes shares and debentures are issued at a price higher than the nominal value. These premiums received by a company on the issue of any of its shares or debentures are called "capital profits" in contradistinction to "revenue" or "trading profits." They are usually transferred to a Capital Reserve Account, and are then available for writing off losses such as Preliminary Expenses, or for writing down Goodwill.

Where Debentures are redeemable, any premium received on their issue is transferred to a Debenture Redemption Account, thus forming the nucleus of the fund for their repayment.

Such capital profits are not available for dividend, and hence their transfer to a Capital Reserve instead of the ordinary Reserve Fund, which is often drawn upon in a bad trading year in order to be able to pay a normal dividend.

Again, since such profits have actually been received in cash, i.e. are not "paper profits," it may in some cases be desirable to retain them in the business as working capital.

Underwriting Commission and Debenture Discount

When shares and debentures are offered to the public there is sometimes a risk that they may not be fully subscribed, so the company gets the issue underwritten, that is, pays the underwriters a commission in cash or fully paid shares or debentures, in return for their guarantee to take up those shares or debentures for which the public do not subscribe.

Such commission is quite lawful provided it is disclosed in the prospectus, or in the statement in lieu of prospectus, and is authorized by the articles. Such underwriting commission, and also any debenture discount, must be separately stated on every Balance Sheet until it has been wholly written off.

A debenture discount is a "capital" loss, not a "trading" loss, but is written off against profits over the number of years during which the debentures will be in existence. If the debentures are for ten years, then one-tenth of the discount will be written off each year; if for five years, then one-fifth each year, and so on.

Example. A Limited Company issued £9,000 Debentures at a discount of 5 per cent, repayable at the end of five years. Show the Ledger Account for the Discount until wholly written off.

Dr. DEBENTURE DISCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Debentures	450	–	–	1	By Profit and Loss	90	–	–
						,, Balance c/d	360	–	–
		£450	–	–			£450	–	–
2	,, Balance b/d	360	–	–	2	,, Profit and Loss	90	–	–
						,, Balance c/d	270	–	–
		£360	–	–			£360	–	–
3	,, Balance b/d	270	–	–	3	,, Profit and Loss	90	–	–
						,, Balance c/d	180	–	–
		£270	–	–			£270	–	–
4	,, Balance b/d	180	–	–	4	,, Profit and Loss	90	–	–
						,, Balance c/d	90	–	–
		£180	–	–			£180	–	–
5	,, Balance b/d	90	–	–	5	,, Profit and Loss	90	–	–

The Debentures outstanding for the 1st year will be £9,000
,, ,, ,, ,, ,, 2nd ,, ,, ,, £7,200
,, ,, ,, ,, ,, 3rd ,, ,, ,, £5,400
,, ,, ,, ,, ,, 4th ,, ,, ,, £3,600
,, ,, ,, ,, ,, 5th ,, ,, ,, £1,800

£27,000

Dr. DEBENTURE DISCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Debentures	450	–	–	1	By Profit and Loss	150	–	–
						,, Balance c/d	300	–	–
		£450	–	–			£450	–	–
2	,, Balance b/d	300	–	–	2	,, Profit and Loss	120	–	–
						,, Balance c/d	180	–	–
		£300	–	–			£300	–	–
3	,, Balance b/d	180	–	–	3	,, Profit and Loss	90	–	–
						,, Balance c/d	90	–	–
		£180	–	–			£180	–	–
4	,, Balance b/d	90	–	–	4	,, Profit and Loss	60	–	–
						,, Balance c/d	30	–	–
		£90	–	–			£90	–	–
5	,, Balance b/d	30	–	–	5	,, Profit and Loss	30	–	–

Where the Debentures are repayable by annual drawings of a fixed amount, the discount is written off each year in proportion to the amount of Debentures outstanding. Those years, therefore, which enjoy a larger portion of the debentures will likewise bear a larger portion of the discount.

Example: A Limited Company issued £9,000 Debentures at a discount of 5 per cent, repayable by annual drawings of £1,800. Show the Ledger Account for the Discount until wholly written off. (See page 527).

Therefore, $\frac{90}{270}$ths of the Discount must be written during the first year, $\frac{72}{270}$ths in the second year, and so on. The same proportions, however, are more simply given by taking the years backwards, thus: $5 + 4 + 3 + 2 + 1 = 15$. The proportions will, therefore, be $\frac{5}{15}$ths, $\frac{4}{15}$ths, $\frac{3}{15}$ths, $\frac{2}{15}$ths, and $\frac{1}{15}$th respectively of £450.

Trading and Profit and Loss Account

The Trading and Profit and Loss Account of a Joint Stock Company follows very closely that of a partnership. There are, however, two important differences—

1. There is first of all an additional Profit and Loss Account, called an Appropriation Account. This contains, on the credit side, the balance of profit (if any) brought forward from last year's Account, the net profit for the current year, and any other supplementary profits. On the debit side, it contains the dividends that have been paid on the company's shares, the transfer to the Reserves, and any other appropriations sanctioned by the directors.

Such items as Debenture Interest, Interest on Calls in Arrear, and on Calls in Advance, and Interest on the Company's Investments, are also found in this Account, though other

TRIAL BALANCE, 31ST DECEMBER, 19..

	Dr. £	s.	d.	Cr. £	s.	d.
Ordinary Share Capital				50,000	–	–
Calls in Arrear (Ordinary Shares)	50	–	–			
Calls in Advance (Ordinary Shares)				200	–	–
Preference Share Capital				30,000	–	–
Stock 1st January, 19..	17,375	14	2			
Purchases	28,724	16	8			
Sales				71,520	16	10
Returns Inwards	846	12	6			
Returns Outwards				327	3	11
Sundry Debtors	33,626	1	2			
Land and Buildings	20,000	–	–			
Machinery and Plant	22,672	–	–			
Patents	6,000	–	–			
Sundry Creditors				11,834	14	9
Manufacturing Wages	14,720	6	10			
Manufacturing Charges	6,107	15	6			
General Expenses	2,025	10	6			
Rates and Taxes	350	11	8			
Interest and Bank Charges	120	14	10			
Discounts Received				621	15	6
Bad Debts	1,326	13	8			
Salaries	2,048	6	10			
Insurance	140	–	–			
Travellers Salaries and Expenses	4,619	12	8			
Discounts Allowed	1,857	16	4			
Bad Debts Reserve 1st January, 19..				1,376	5	6
Directors Fees	320	–	–			
Interim Ordinary Dividend paid	1,998	–	–			
Half Year's Preference Dividend	900	–	–			
Reserve Account				3,000	–	–
Profit and Loss Account 1st January				1,850	8	4
Cash in hand	276	14	8			
Cash at Bank	4,623	16	10			
	£170,731	4	10	£170,731	4	10

accountants place them in the Profit and Loss Account.

Amounts written off Goodwill are now viewed as appropriations of profit, and therefore shown in the Appropriation Account. Sometimes the debit side of the Appropriation Account contains a loss brought forward from the previous year to be made good out of the current year's profits.

2. The balance of the Appropriation Account remains in the Account. Unlike a partnership, it is not divided among the partners or shareholders, nor even transferred to the Capital.

Worked Example of Trading and Profit and Loss Account

The Kappa Manufacturing and Trading Company, Limited, has an Authorized Capital of £90,000 divided into 60,000 Ordinary Shares of £1 each, and 30,000 6 per cent Preference Shares of £1 each. From the Trial Balance on page 528 it is desired to prepare Trading and Profit and Loss Account for the year ended 31st December, 19...

The Stock on hand at 31st December, 19.. was valued at £18,469 12s. 6d., and the following adjustments are necessary—

Insurance Unexpired, £22 10s
Reserve for Audit Fee, £100
Depreciation—
  Land and Buildings, 2 per cent.
  Plant and Machinery, 10 per cent
  Patents, 10 per cent.
Reserve for Bad Debts, 5 per cent of Sundry Debtors.
Transfer £1,000 to the Reserve Account.

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDED 31ST DECEMBER, 19.. *Cr.*

	£	s	d	£	s	d		£	s	d	£	s	d
To Stock 1st January				17,375	14	2	By Sales	71,520	16	10			
,, Purchases	28,724	16	8				,, *Less* Returns	846	12	6			
Less Returns	327	3	11								70,674	4	4
				28,397	12	9	,, Stock 31st December				18,469	12	6
,, Manufacturing Wages				14,720	6	10							
,, Manufacturing Charges				6,107	15	6							
,, Balance (Gross Profit)				22,542	7	7							
				£89,143	16	10					£89,143	16	10
To General Expenses				2,025	10	6	By Trading Account (Gross Profit)				22,542	7	7
,, Rates and Taxes				350	11	8	,, Discounts Received				621	15	6
,, Interest and Bank Charges				120	14	10							
,, Bad Debts				1,326	13	8							
,, Salaries				2,048	6	10							
,, Insurance	140	–	–										
Less Unexpired	22	10	–										
				117	10	–							
,, Travellers Salaries and Expenses				4,619	12	8							
,, Discounts Allowed				1,857	16	4							
,, Bad Debts Reserve 5% £33,626 1s 2d	1,681	6	1										
Less Old Reserve	1,376	5	6										
				305	–	7							
,, Directors Fees				320	–	–							
,, Reserve for Audit Fee				100	–	–							
,, Depreciation—													
Land and Buildings 2% £20,000	400	–	–										
Plant and Machinery 10% £22,672	2,267	4	–										
Patents 10% £6,000	600	–	–										
				3,267	4	–							
,, Balance (Net Profit)				6,705	2	–							
				£23,164	3	1					£23,164	3	1

Dr APPROPRIATION ACCOUNT *Cr.*

	£	s	d.	£	s	d		£	s	d.	£	s.	d
To Half Years Preference Dividend	900	–	–				By Balance 1st January 19..	1,850	8	4			
,, Interim Ordinary Dividend	1,998	–	–				,, Net Profit for Year	6,705	2	–			
				2,808	–	–					8,555	10	4
,, Transfer to Reserve				1,000	–	–							
,, Balance				4,657	10	4							
				£8,555	10	4					£8,555	10	4

Profits Prior to Incorporation

A joint stock company cannot legally earn profits before it has received a certificate entitling it to commence trading. It often happens, however, that a company is formed to take over a business from a date prior to its own incorporation. The profits earned prior to its incorporation are therefore capital profits and not profits available for dividend.

Such profits are placed to a Capital Reserve Account, and used to write down Goodwill, or to make good any depreciation of the fixed assets taken over from the vendor. In some cases interest on the purchase price of the business is payable to the vendor up to the actual time of payment. Such interest should, of course, be a first charge against the profits earned prior to incorporation.

Wherever possible such profits should be accurately ascertained by actual stocktaking, but where this is out of the question, an approximation must be made. There are three ways in which this can be done: (1) according to *time*; (2) according to *turnover*, (3) the *gross* profit according to *turnover*, and the *expenses* according to *time*. As the turnover is not constant in many businesses, the third method is deemed to give the best and fairest result.

Suppose, for example, a joint stock company was incorporated on the 1st of April to take over a business as a going concern from the previous 1st of January. Suppose, also, the turnover for the year ending 31st of December to be £90,000, namely, £25,000 for the period up to 1st of April, and £65,000 for the following period; the gross profit for the year to be £21,276, and the expenses £9,804, including £300 for Directors' Fees, thus leaving a net profit of £11,472.

By the *time* method we get $\frac{3}{12}$ths of £11,772, or £2,943, as the profits prior to incorporation, leaving the balance for the company's own use. By the *turnover* method we get $\frac{25000}{90000}$ths or $\frac{5}{18}$ths of £11,772, namely, £3,270, as profits prior to incorporation, and the balance for the company's use. By the *third* method the gross profit for the first period would be $\frac{25000}{90000}$ths or $\frac{5}{18}$ths of £21,276, that is, £5,910. The expenses for the same period would be $\frac{3}{12}$ths of £9,504, or £2,376. There would thus be a net balance of £3,534 (£5,910 less £2,376). Thus the profits prior to incorporation would, by the various methods, be (1) £2,943; (2) £3,270; (3) £3,534.

The Directors' Fees are, of course, chargeable against the company's own share of the profits, i.e. the profits *subsequent* to incorporation.

Loss Prior to Incorporation

Should the trading results for the period prior to incorporation show a loss, such loss could be placed to a special Suspense Account, and then extinguished by capital profits such as premiums on shares or debentures. Alternatively, however, such loss could be added to the Goodwill Account, if there was one.

Interest on Capital Paid Out of Capital

Where a company has to construct its works or buildings, and is thus unable to earn any income with which to pay dividend on its shares during the period of such equipment, it is lawful for such companies to pay interest on such shares or debentures out of capital, provided such interest is itself capitalized, i.e. added to the cost of such equipment. Certain conditions and restrictions are, however, imposed by the Companies Acts—

"Where any shares of a company are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings, or the provision of any plant which cannot be made profitable for a lengthened period, the company may pay interest on so much of that share capital as is for the time being paid up for the period and subject to the conditions and restrictions in this section mentioned, and may charge the same to capital as part of the cost of construction of the work or building, or the provision of plant—

Provided that—

1. No such payment shall be made unless the same is authorized by the articles or by special resolution:

2. No such payment, whether authorized by the articles or by special resolution, shall be made without the previous sanction of the Board of Trade:

3. Before sanctioning any such payment the Board of Trade may, at the expense of the company, appoint a person to inquire and report to them as to the circumstances of the case, and may, before making the appointment, require the company to give security for the payment of the costs of the inquiry:

4. The payment shall be made only for such period as may be determined by the Board of Trade; and such period shall in no case extend beyond the close of the half-year next after the half-year during which the works or buildings

have been actually completed or the plant provided:

5. The rate of interest shall in no case exceed 4 per cent per annum or such lower rate as may for the time being be prescribed by Order in Council:

6. The payment of the interest shall not operate as a reduction of the amount paid up on the shares in respect of which it is paid:

7. The accounts of the company shall show the share capital on which, and the rate at which, interest has been paid out of capital during the period to which the accounts relate:

8. Nothing in this section shall affect any company to which the Indian Railways Act, 1894, as amended by any subsequent enactment, applies."

Railway, canal, dock, harbour, tramway, cable, and colliery companies—in fact all companies incorporated under special Act of Parliament—usually have similar powers conferred on them.

The subject of charging interest on capital to capital is, however, one of some controversy; and there are naturally various arguments "for" and "against."

Profits Available for Dividend

From Article 97 of Table A, which says that no dividend shall be payable otherwise than out of "profits," has arisen the vexed question: What are "profits" within the meaning of the Act?

In *Lubbock* v. *The British Bank of South America, Ltd.*, the latter sold its goodwill and property in Brazil at a considerable profit, and it proposed to distribute this profit by way of dividend. Some shareholders sought to obtain an injunction restraining the directors. The Court, however, decided that the profit was really profit on capital, and not part of the Capital itself; and since the directors had complied with all the requirements of the Company's articles, the payment of such dividend was quite in order.

In *Dovey* v. *Cory* the preference shareholders sought to obtain an order from the Court compelling the payment of the preference dividend, owing to the fact that there was sufficient balance to the credit of Profit and Loss Account to enable the directors to do so. The directors, however, considered that these profits should be used to make good the depreciation of their fixed property, i.e. the actual and estimated loss on their lease, plant, land, and buildings. The shareholders denied the liability of the directors to make good the loss of *fixed* capital.

The Court held that the directors were justified in making reasonable provision for such losses, and declined to override them. It also laid down the dictum that dividends are not payable out of profits, but out of profits available for dividend; and until the directors set aside a portion of the profits as available for dividend, no shareholder has any claim.

In *Foster* v. *The New Trinidad Lake Asphalte Co., Ltd.*, a large book debt, considered practically worthless and not even included in the Balance Sheet, was unexpectedly received with interest. An injunction was obtained against the directors restraining them from paying away this profit as dividend. Mr. Justice Byrne said that while accretions to capital might be realized and turned into money and divided amongst the shareholders, as was decided in *Lubbock* v. *The British Bank of South America*, yet he did not think that a realized accretion to the estimated value of *one* item of the capital assets could be deemed to be profit divisible among the shareholders without reference to the result of the *whole* account fairly taken.

Lord Justice Buckley, in his work on the Companies Acts, says that the appreciation or depreciation of "fixed capital" (property acquired and intended for retention and employment with a view to a profit) need not in every company, but that of "circulating capital" (property acquired or produced with a view to re-sale at a profit) must be the subject of entry in the Profit and Loss Account . . . But when all proper allowances have thus been made in favour of Capital, the balance is Revenue applicable for payment of dividend.

In *Lee* v. *Neuchâtel Asphalte Co., Ltd.*, the shareholders sought to restrain the directors from paying a dividend on the ground that part of the company's capital had been lost, and that no provision for such loss had been made out of profits. The articles of the company gave the directors power to invest the capital in a wasting asset (concession for obtaining mineral products) and exempted them from any obligation to provide for a renewal of the concession or for the wasting of any asset. The Court held that the excess of the current year's income over the expenses, properly so charged, could be regarded as profit available for dividend, even though no depreciation had been charged on the fixed assets.

In *Verner* v. *The General and Commercial Investment Trust, Ltd.*, the stockholders sought to obtain an injunction restraining the directors from paying a dividend, on the ground that the company's investments, when valued at current market price, showed a depreciation in value of over £240,000, a considerable part of which seemed to be utterly lost, and for which no provision had been made before arriving at the profits. Lord Justice Lindley dismissed the action. He said that the law was much more accurately expressed by saying that dividends could not be paid out of capital than by saying that they could only be paid out of profits. He also said that while *floating or circulating capital* must be kept up, *fixed capital* might be sunk and lost, and yet the excess of the current receipts over the current expenses might be divided.

In *Wilmer* v. *McNamara & Co., Ltd.*, the shareholders sought to restrain the directors from paying a dividend, the reason being that no provision had been made for loss of capital before arriving at the profits. Lord Justice Stirling said that there was nothing in the articles to show that the capital of the company (or, rather, assets to the value of those acquired by the company at its formation) must be kept up. He was of opinion that depreciation of Leaseholds and Goodwill was a loss of "fixed" capital, and not a loss of "floating or circulating" capital. Therefore, following the decisions in *Lee* v. *Neuchâtel Co.*, and in *Verner* v. *The General Investment Trust*, the injunction must be refused.

The reason that the payment of dividends out of capital is illegal is that it is in effect a reduction of capital, which can only be made by special consent of the Court. Directors who authorize the payment of such dividends are acting *ultra vires*, and are liable to refund the amount to the company.

CHAPTER XXXIV

JOINT STOCK COMPANIES—(*contd.*)

It is necessary after the profits, if any, have been ascertained to arrange for their distribution. The directors consider the final results at a board meeting, and make a recommendation to the shareholders that a certain portion be distributed as dividend. This recommendation is embodied in a directors' report, which together with the final accounts, and notice of the Annual General Meeting, is then circulated to the shareholders.

Annual General Meeting

The Annual General Meeting is a general meeting of the company, and every company must hold one once at least in every calendar year, and not more than fifteen months after the holding of the last preceding general meeting. If a default is made in holding this meeting, the Court may, on the application of any member, call or direct the calling of a general meeting of the company.

Extraordinary General Meeting

Another meeting of the company is an Extraordinary General Meeting which is only called if there is some special business which must be transacted before the next ordinary meeting. The directors may call this meeting or it may be called by some of the shareholders, for in spite of anything in the Articles of a company, the directors must convene this meeting if requested to do so by the holders of not less than one-tenth of the issued share capital upon which all calls or other sums then due have been paid, and if the directors do not do this within twenty-one days, the requisitionists or a majority of them in value, may call the meeting themselves.

The effect of this is, that sometimes a meeting may be requisitioned by members holding shares that carry no voting rights. It is proposed in the Companies Act, 1928, that the requisition should be signed by members holding at the date of deposition of the requisition not less than one-tenth of that part of the paid-up capital as at that date carries the right of voting at the General Meeting. If the directors do not call the meeting within twenty-one days, then the requisitionists or such of them as represent more than one-half of their total voting rights may call the meeting to be held within three months from the date of deposition.

Provisions as to Meetings and Votes

When a meeting has to be called it is necessary that a certain number of days' notice in writing should be given. This notice must be posted so as to give each shareholder seven clear days between the date of receipt of the notice and the date of the meeting. The period is determined by the Articles of Association, it may be seven or fourteen or some other number of days. The Articles should also determine the number of members who may call an ordinary general meeting; whether any person present at a meeting may be elected chairman, or whether a definite person shall be chairman at all the meetings of the company; whether every member shall have one vote or some other proportion, and whether the chairman shall have a "casting" vote, that is, a second vote, in the event of the previous voting resulting in an equality of votes. If the Articles do not deal with these matters, then the rules of the Companies Acts must be followed.

Kinds of Resolutions

The business of a company meeting is transacted by means of resolutions, of which there are three kinds, ordinary, extraordinary, and special.

An Ordinary Resolution is one that is decided by a bare majority of the members.

An Extraordinary Resolution is one that has been passed by a majority of not less than three-fourths of such members entitled to vote as are present in person or by proxy (where proxies are allowed) at a general meeting of which notice specifying the intention to propose the resolution as an extraordinary resolution has been duly given. A proxy is a written nomination of a person to vote on behalf of an absent member.

In the Companies Act, 1928, the words "entitled to vote as are present" are altered to "as, being entitled so to do, vote," with the consequence that in calculating whether or not a sufficient majority has been obtained, the

votes to which those members who abstain from voting are entitled are to be disregarded.

Under the 1928 Act a special resolution is a resolution which has been passed by the same majority required for an extraordinary resolution, and at a General Meeting of which not less than twenty-one days notice, stating the intention to propose the resolution as a special resolution has been given. The necessity for a confirmatory meeting is abolished.

A declaration of the chairman that the resolution is carried is, unless a poll is demanded, conclusive evidence of the fact. A poll may be demanded by three to five persons (according to the Articles). In computing the majority on the poll, reference must be had to the number of votes to which each member is entitled by the Articles.

Registration of Resolutions

A copy of every special and extraordinary resolution must within fifteen days of the passing of the special resolution, or from the passing of the extraordinary resolution, as the case may be, be printed and forwarded to the Registrar of Companies to record the same. Where Articles have been registered, a copy of every special resolution for the time being in force must be embodied in or annexed to every copy of the Articles issued after the confirmation of the resolution.

Where Articles have not been registered, a copy of every special resolution must be forwarded in print to any member at his request, on payment of a fee not exceeding 1s.

Annual Audit of a Company

Every joint stock company must have an annual audit. The provisions of the Companies Acts state that—

" Every company shall at each annual general meeting appoint an auditor or auditors to hold office until the next annual general meeting.

" If any appointment of auditors is not made at an annual general meeting, the Board of Trade may, on the application of any member of the company, appoint an auditor of the company for the current year, and fix the remuneration to be paid to him by the company for his services.

" A director or officer of the company shall not be capable of being appointed auditor of the company."

A person other than a retiring auditor cannot be appointed auditor at an annual general meeting, unless the shareholder who proposes to nominate him has given notice of such intention to the company fourteen days before the meeting. The first auditors of the company may be appointed by the directors, who may also fill any casual vacancy.

Auditors' Report

The auditors, after being appointed, make arrangements to check the entries in the financial books, although, of course, the audit cannot be completed until the end of the financial year, when they will make their report.

The Companies Acts say that—

" Every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, and shall be entitled to require from the directors and officers of the company such information and explanation as may be necessary for the performance of the duties of the auditors.

" The auditors shall make a report to the members on the accounts examined by them, and on every balance sheet laid before the company in general meeting during their tenure of office, and the report shall state—

whether or not they have obtained all the information and explanations they have required, and

whether, in their opinion, the balance sheet referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company.

" The balance sheet must be signed by two directors and the auditor's report attached to it, which must be read before the company in general meeting."

Any shareholder is entitled to be furnished with a copy of the Balance Sheet and auditors' report at a charge not exceeding 6d. for every hundred words.

The Companies Acts gives to holders of preference shares and debentures in a company the same right to receive and inspect the balance sheets of the company, and the reports of the auditors and other reports as is possessed by the holders of ordinary shares in the company. This section, however, does not apply to a *private* company, nor to a company registered before the 1st day of July, 1908.

Dividends

As mentioned on page 533, a Dividend is a

share of the profits of a joint stock company, the profits being *divided* among the shareholders. Dividends are proposed or recommended by the directors and declared by the company in general meeting, the shareholders being called upon to pass a resolution sanctioning the proposals of the directors. Legally, the dividend becomes a liability to the shareholders from the date of its declaration, but does not bear interest against the company.

An Interim Dividend is one declared before the end of the company's financial period, either out of profits that are accruing, or out of a balance brought forward from the previous period.

The provisions of Table A, which are generally followed by most Articles of Association, are as follows—

"95. The company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the directors.

"96. The directors may from time to time pay to the members such interim dividends as appear to the directors to be justified by the profits of the company.

"97. No dividend shall be paid otherwise than out of profits.

"98. Subject to the rights of persons, if any, entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid on the shares, but if and so long as nothing is paid up on any of the shares in the company dividends may be declared and paid according to the amounts of the shares. No amount paid on a share in advance of calls shall, while carrying interest, be treated for the purposes of this article as paid on the share.

"99. The directors may, before recommending any dividend, set aside out of the profits of the company such sums as they think proper as a reserve or reserves which shall, at the discretion of the directors, be applicable for meeting contingencies, or for equalizing dividends, or for any other purpose to which the profits of the company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the company or be invested in such investments (other than shares of the company) as the directors may from time to time think fit.

"100. If several persons are registered as joint holders of any share, any one of them may give effectual receipts for any dividend payable on the share.

"101. Notice of any dividend that may have been declared shall be given in manner hereinafter mentioned to the persons entitled to share therein.

"102. No dividend shall bear interest against the company."

Book Entries for Dividends

When the resolution declaring the dividend has been passed, entries can be made in the financial books. A separate Dividend Account is opened for each class of dividend, ordinary, preference, etc., the Dividend Account being debited, and the Shareholders Account credited. This latter account is closed by payments of the dividend being debited to it. The Dividend Account itself is closed by transfer to the Appropriation Account. The following are the necessary entries—

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		Dr. £	s.	d.	Cr. £	s.	d.
19..							
Jan. 21	Preference Share Dividend	1,500	–	–			
	To Preference Shareholders				1,200	–	–
	,, Income Tax Account				300	–	–
	Dividend less tax at 4s. in the pound.						
21	Appropriation Account	1,500	–	–			
	To Preference Share Dividend				1,500	–	–
	Transfer of Balance						

CASH BOOK *Cr*

	Payments	Bank £	s.	d.
19.. Jan. 21	By Preference Shareholders	1,200	–	–

An alternative form of entry is to debit the Appropriation Account direct with the dividend, thus—

JOURNAL *Dr.* *Cr*

		£	s.	d	£	s.	d.
19.. Jan 21	Appropriation Account	1,500	–	–			
	To Preference Share Dividend				1,500	–	–
21	Preference Share Dividend Account	300	–	–			
	To Income Tax Account				300	–	–
	Tax at 4s in £ on £1,500.						

CASH BOOK *Cr.*

Date	Payments	Bank £	s.	d.
19..	By Preference Share Dividend Account	1,200	–	–

A cheque is drawn for the net amount of the dividend payable, and posted to the debit of the Shareholders' or Dividend Account, thus closing it. The cheque is paid in to the credit of a Preference Dividend Account at the company's bank. Cheques, or dividend warrants, as they are called, are then drawn on this account and sent to the individual shareholders for their respective portions. When the number of shareholders is not very large, a separate Bank Account for the dividend may not be opened, dividend warrants being drawn on the ordinary bank account, the details respecting each shareholder being shown in an inner column in the ordinary Cash Book.

A shareholder may, however, instruct the company to pay the dividends on his shares to his banker, by completing a special Dividend Request Form, a specimen of which appears on page 537.

Dividend Warrant

A specimen of a Dividend Notice and Warrant is given on page 538.

The dividend warrant counterfoil must, in accordance with Sect. 33 of the Finance Act, 1924, show the gross dividend declared, the rate and amount of income tax deducted, and the net amount of dividend payable.

Deduction of Income Tax

A joint stock company is authorized by law to deduct income tax at the full standard rate from all dividends paid away to its shareholders. The dividend warrant shows how much tax has been deducted, and how the net amount of the warrant has been arrived at. The amount of tax so deducted by the company is placed to the credit of its Income Tax Account, as the company pays tax on the whole of its assessable profits and not on any particular part of them.

The Government's financial year runs from 6th April in one year to the 5th April in the next year. If, therefore, there has been any change in the rate of tax during this period, a corresponding apportionment of tax must be made. Thus, suppose a company's financial year ends on the 31st December, and that the rate of tax is changed from 5s. to 4s. in the £,

DIVIDEND REQUEST FORM

THE WESTERN MANUFACTURING COMPANY, LTD.

98 Western Park Road,
S.W.7.

. . .. 19..

Dividends

Sir (or Madam),

If it will cause you no inconvenience to do so, I shall be obliged if you will be good enough to complete and return the attached form instructing me to pay all Dividends, etc., direct to your Bankers. If you will comply with this request, the customary Certificate showing the Income Tax deducted from each Dividend will be forwarded to you through your Bank.

Yours faithfully,

. . . ..

Secretary.

Folio ....
No. . . ..

To The Secretary,
Western Manufacturing Co., Ltd.,
98 Western Park Road, S.W.7.

Sir,

I hereby request and authorize you to pay all Dividends, Bonuses, Interest from time to time falling due and becoming payable on any shares, stocks, or debentures now or hereafter registered in my name to my bankers . . ..
of . . . . whose receipt shall be your full and sufficient discharge for them.

Dated this . day of . . . . 19..

Signed..... ....
Address . . . .
. . ..

WESTERN MANUFACTURING COMPANY, LIMITED

DIVIDEND WARRANT

98 Western Park Road,
S.W.7.

No.......... ....19..

Preference Dividend for the Half-year ending 31*st December*, 19..

Dear Sir (or Madam),

In accordance with a Resolution of the Board authorizing the payment of the Preference Dividend at the rate of per cent per annum, I beg to hand you Warrant as follows—

Gross Dividend at .. per Share on . . . . Shares			
of £ each	£	:	:
Less Income Tax at. .. in the £	£	:	:
Net Dividend Payable	£	:	.

I hereby certify that the amount stated above has been deducted for Income Tax, and has been paid by me to the proper Officer for the receipt of taxes.

This statement will be accepted by the Income Tax Commissioners as proof of the deduction of tax, and should, therefore, be retained by you.

Yours faithfully,

. . . .

Secretary.

To.. .. ..

. . . .

WESTERN MANUFACTURING COMPANY, LIMITED

2d. Stamp

DIVIDEND WARRANT

. .. . 19..

No... ....

To The Reliable Bank, Limited,
Finsbury, London, W.C.

Pay to.. . . . . or ORDER

the sum of . . . .

For and on behalf of the above Company,

. . .. *Director.*

£ : :

. ... *Secretary.*

Signature of Payee . . . .

This Warrant must be presented within three months from date hereof.

the rate to deduct would be calculated as follows—

3 months at 5s in the £	=	15s.
9 ,, ,, 4s ,,	=	36s.
		12)51s.

Average rate for year = 4s. 3d. in the £.

The apportionment is usually made in even months, the odd five days in April not being counted.

Dividends "Free of Tax"

The prospectuses of joint stock companies sometimes state that a certain dividend will be paid *free of tax*. Such dividend does not, however, escape taxation, inasmuch as a company pays tax on the whole of its assessable profits.

The statement that a certain dividend is to be paid *free of tax* means that the shareholder will receive the full or *gross* dividend instead of the *net*. It operates against the shareholders who are entitled to the balance of profits after paying the usual dividends, as they lose the amount of profit represented by the tax.

A person receiving a dividend *free of tax* must regard the dividend as the amount of a *net* payment, and must add back to it the amount of the tax, in order to be assessed on what the revenue authorities regard as his full income

Thus, suppose a shareholder received on his shares a dividend of £100 *free of tax*, he would have to return as his income from those shares the sum of £125 (£100 plus ¼ for tax, viz., £25). This £125, less tax at 4s. in the £, would give the income which the shareholder has actually received.

Unclaimed or Unpaid Dividends

Where some of the shareholders have not cashed their dividend warrants, there will at balancing time be a balance in the Dividend Pass Book, representing money owing by the company to some of its members. This debt is a specialty debt, and therefore the company will be liable for payment of it for a period of twenty years, after which it may be forfeited.

The double-entry books, however, will be closed. The unpaid balance is therefore shown on both sides of the Balance Sheet; on the liabilities side it is shown as "*Unpaid or Unclaimed Dividends*," and on the assets side as "*Cash at Bank on Dividend Account.*"

Where, however, a separate Bank Account has not been opened for the dividend, the Dividend Account will show a balance, and can be closed by transfer of this balance to an Unclaimed Dividends Account. The latter account will figure on the liabilities side of the Balance Sheet, and will be represented on the assets side by an undivided portion of the general Cash at Bank.

Dividend List or Book

This is a list or book, ruled with columns, to record the names of the individual shareholders, the amount of their share holdings, the amounts paid up on their shares, the gross amount of dividend, the amount of tax deductible, and the net dividend payable to each shareholder. Separate books or lists are kept for each kind of dividend, such as Ordinary, Preference, and Deferred. The following is a specimen of such list or book—

PREFERENCE SHARE DIVIDEND BOOK

31ST DECEMBER, 19..

P.S.L. folio	Name	Amount paid up on Shares			Amount of Dividend at 6%			Amount of Tax at 4s.			Net Dividend			Remarks
		£	*s.*	*d.*	£	*s.*	*d*	£	*s*	*d.*	£	*s*	*d.*	

A company may, on giving notice by advertisement in some paper circulating in the district in which the registered office is situated, close the Register of Members and Share Ledger for any time or times not exceeding in the whole thirty days in each year.

The Transfer Registers (in some companies a part of the Share Ledger) are usually closed for two or three weeks in order to enable Dividend Lists to be prepared. The persons registered in the Company's Share Register are the only persons entitled to dividend in the eyes of the company. Any transfers lodged during this time are, therefore, held over until the Dividend Lists have been prepared, and the Register reopened.

Scrip Dividends

Dividends, unless the Articles provide otherwise, are always payable in *cash*. Financial and other companies sometimes take power in their Articles, however, to distribute, by way of dividend free of tax, shares or debentures in subsidiary companies. This is called a "scrip" dividend.

Arrears of Dividend on Cumulative Preference Shares

Where preference shares are cumulative, and the profits are insufficient to pay the dividend, the whole, or the unpaid part of it, is carried forward as a charge upon the subsequent profits.

Some accountants think that the arrears should be brought into the books and shown as one of the company's liabilities.

Other accountants, however, argue that the liability to pay does not accrue until there are sufficient profits available for dividend out of which to pay such arrears. Consequently, they treat the arrears merely as a *contingent* liability. A note is made on the Balance Sheet, at the foot of it, that the Arrears of Dividend on the Cumulative Preference Shares amount to such and such a figure.

Appropriation Account

This is an additional Profit and Loss Account found in the accounts of joint stock companies. The object of it is to show on the credit side the total profits available for appropriation, and on the debit side the various distributions proposed by the directors and sanctioned in general meeting.

EXAMPLE. The accounts of the Western Manufacturing Company, Limited, showed a net profit of £25,568 14s. 8d. for the year ended 31st December, 19.., which the directors proposed to utilize as follows—

1. To pay a dividend of 10 per cent, free of tax, on the Ordinary Shares (£120,000).
2. To pay a dividend of 6 per cent (less tax

JOURNAL

		Dr. £	s	d	Cr. £	s.	d.
19.. Feb. 10	Profit and Loss Account	25,568	14	8			
	To Appropriation Account				25,568	14	8
	Balance transferred.						
10	Appropriation Account	12,000	–	–			
	To Ordinary Share Dividend Account				12,000	–	–
	10% on £120,000.						
10	Appropriation Account	6,000	–	–			
	To Preference Share Dividend Account				6,000	–	–
	6% on £100,000.						
10	Preference Share Dividend Account	1,200	–	–			
	To Income Tax Account				1,200	–	–
	Tax at 4s. in the £ on £6,000.						
10	Appropriation Account	2,000	–	–			
	To Dividend Reserve Account				2,000	–	–
	Amount transferred.						
10	Appropriation Account	4,000	–	–			
	To Reserve Account				4,000	–	–
	Amount transferred.						

at 4s. in the £) on the Preference Shares (£100,000).

3. To transfer £2,000 to a Dividend Reserve Account.

4. To transfer £4,000 to the Reserve Account.

5. To carry the balance forward.

The above appropriations were approved and passed by the shareholders in general meeting on the following 10th February. It is desired to make the necessary entries in the company's books, and to show also the Ledger Accounts affected.

CASH BOOK

Date	Payments	Bank £	s.	d.
19..		£	s.	d.
Feb. 10	By Ordinary Share Dividend Account	12,000	–	–
10	,, Preference Share Dividend Account	4,800	–	–

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Feb 10	To Appropriation Account	25,568	14	8	Dec. 31	By Net Profit	25,568	14	8

GENERAL OR IMPERSONAL LEDGER

Dr. APPROPRIATION ACCOUNT *Cr.*

		£	s	d.			£	s.	d
19..					19..				
Feb. 10	To Ordinary Share Dividend	12,000	–	–	Feb. 10	By Profit and Loss Account	25,568	14	8
10	,, Preference Share Dividend	6,000	–	–					
10	,, Dividend Reserve Account	2,000	–	–					
10	,, Reserve Account	4,000	–	–					
10	,, Balance c/f	1,568	14	8					
	£	25,568	14	8		£	25,568	14	8

Dr. ORDINARY SHARE DIVIDEND ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Feb. 10	To Cash	12,000	–	–	Feb 10	By Appropriation Account	12,000	–	–

Dr. PREFERENCE SHARE DIVIDEND ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Feb. 10	To Income Tax Account	1,200	–	–	Feb. 10	By Appropriation Account	6,000	–	–
10	,, Cash	4,800	–	–					
		£6,000	–	–			£6,000	–	–

Dr. DIVIDEND RESERVE ACCOUNT *Cr*

		£	s	d.				£	s	d.
					19.. Feb 10	By Appropriation Account	.	2,000	–	–

Dr. RESERVE ACCOUNT *Cr.*

		£	s	d.				£	s	d.
					19.. Feb 10	By Appropriation Account	.	4,000	–	–

Dr. INCOME TAX ACCOUNT *Cr.*

		£	s	d.				£	s	d.
					19.. Feb. 10	By Preference Share Dividend Account . . .	.	1,200	–	–

Accounts and Balance Sheet

Although the question of dividends has been discussed previous to this point, they cannot, strictly speaking, be considered until the Balance Sheet has been completed and circulated to the shareholders. For the Balance Sheet must be sent to the persons entitled to receive it before the general meeting which considers the recommendations of the directors concerning the dividends. Therefore, the dividends are paid in the year succeeding that represented by the date on the Balance Sheet.

The Balance Sheet of a private trader or an ordinary partnership may be made up at such times and in any way the proprietors think fit, but the Balance Sheet of a joint stock company must be made out in such a way that it will not be contrary to the ideas of the Companies Acts.

The provisions of the Companies Act, 1928, with respect to Accounts are as follows—

"Every company must cause to be kept proper books of account with respect to—

(*a*) All sums of money received and expended by the Company and the matter in respect of which such receipt and expenditure takes place, and

(*b*) All sales and purchases by the Company.

(*c*) The assets and liabilities of the Company.

The books of account must be kept at the registered office of the Company, or at such other place as the directors think fit, and shall always be open to the inspection of the directors."

Once at least in every year the directors must lay before the Company in general meeting a Profit and Loss Account for the period since the preceding account, or (in the case of the first account) since the incorporation of the Company, made up to a date not more than nine months before such meeting.

A Balance Sheet must be made out in every year and laid before the Company in general meeting made up to a date not more than nine months before such meeting. The Balance Sheet must be accompanied by a Report of the directors as to the state of the Company's affairs, and the amount which they recommend to be paid by way of dividend, and the amount, if any, which they propose to carry to a Reserve Fund.

A copy of the Balance Sheet and Report must, seven days previously to the meeting, be sent to the persons entitled to receive notices of general meetings.

As regards the Balance Sheet the provisions are—

"Every balance sheet of a company must contain a summary of the authorized share capital and of the issued share capital of the company, its liabilities and its assets, together with such particulars as are necessary to disclose the general nature of the liabilities and the assets

of the company and to distinguish between the amounts respectively of the fixed assets and of the floating assets, and shall state how the values of the fixed assets have been arrived at.

There must be stated under separate headings in the balance sheet, so far as they are not written off—

(*a*) The preliminary expenses of the company; and

(*b*) Any expenses incurred in connection with any issue of share capital or debentures; and

(*c*) If it is shown as a separate item in or is otherwise ascertainable from the books of the company, or from any contract for the sale or purchase of any property to be acquired by the company, or from any documents in the possession of the company relating to the stamp duty payable in respect of any such contract or the conveyance or any such property, the amount of the goodwill and of any patents and trade-marks as so shown or ascertained.

Where any liability of the company is secured otherwise than by operation of law on any assets of the company, the balance sheet must include a statement that that liability is so secured, but it is not necessary to specify in the balance sheet the assets on which the liability is secured.

Where any of the assets of a company consist of shares in, or amounts owing (whether on account of any loan or otherwise) from a subsidiary company or subsidiary companies, the aggregate amount of those assets, distinguishing shares and indebtedness, must be set out in the balance sheet of the first-mentioned company separately from all its other assets, and where a company is indebted (whether on account of any loan or otherwise) to a subsidiary company or subsidiary companies, the aggregate amount of that indebtedness must be set out in the balance sheet of such company separately from all its other liabilities."

The old Table A in the Companies Act of 1862 prescribed a special form of Balance Sheet, which was followed by the companies then in existence and those registered afterwards. Although this form of Balance Sheet is no longer attached to the modern Table A, yet it has been in use so long that it serves almost as a model for modern companies which still adhere closely to it. The following is a copy of it—

BALANCE SHEET OF THE .. . COMPANY, LIMITED

MADE UP TO THE . .. .DAY OF. . . . . 19. .

Capital and Liabilities

			£ s. d.	£ s. d.
I. Capital.		Showing—		
	1	The number of Shares . .		
	2	The amount paid per Share . .		
	3	If any arrears of Calls, the nature of the arrears and the names of defaulters		
	4	The particulars of any Forfeited Shares		
II. Debts and Liabilities of the Company		Showing—		
	5	The amount of Loans on Mortgages or Debenture Bonds . .		
	6	The amount of Debts owing by the Company, distinguishing—		
		(*a*) Debts for which acceptances have been given . . .		
		(*b* Debts to tradesmen for supplies of stock-in-trade or other articles . . .		
		(*c*) Debts for Law Expenses .		
		(*d*) Debts for Interest on Debentures or other Loans . .		
		(*e*) Unclaimed Dividends . .		
		(*f*) Debts not enumerated above		
VI. Reserve Fund.		Showing— The amount set aside from profits to meet contingencies . .		
VII. Profit and Loss.		Showing— The disposal balance for payment of Dividend, etc. . . .		
Contingent Liabilities.		Claims against the Company not acknowledged as debts . .		
		Moneys for which the Company is contingently liable . .		

Property and Assets

			£ s. d.	£ s. d.
III. Property held by the Company		Showing—		
	7	Immovable Property, distinguishing—		
		(*a*) Freehold Land . . .		
		(*b*) Freehold Buildings . .		
		(*c*) Leasehold ,, . .		
		Movable Property, distinguishing—		
	8	(*d*) Stock-in-Trade . . .		
		(*e*) Plant.		
		The cost to be stated, with deductions for deterioration in value as charged to the Reserve Fund or Profit and Loss . . .		
IV. Debts owing to the Company.		Showing—		
	9	Debts considered good for which the Company hold bills or other securities		
	10	Debts considered good for which the Company hold no security .		
	11	Debts considered doubtful and bad		
		Any debt due from a Director or other officer of the Company to be separately stated . . .		
V. Cash and Investments.		Showing—		
	12	The nature of Investment and rate of interest		
	13	The amount of Cash, where lodged, and if bearing Interest . .		

Worked Example of Balance Sheet

The Kappa Manufacturing and Trading Company, Limited, has an Authorized Capital of £90,000, divided into 60,000 Ordinary Share of £1 each, and 30,000 6 per cent Preference Shares of £1 each. From the following Trial Balance it is desired to prepare Trading and Profit and Loss Account and Balance Sheet as at 31st December, 19..

TRIAL BALANCE, 31st December, 19..

	Dr. £	s.	d.	Cr. £	s	d
Ordinary Share Capital				50,000	–	–
Calls in Arrear (Ordinary Shares)	50	–	–			
Calls in Advance (Ordinary Shares)				200	–	–
Preference Share Capital				30,000	–	–
Stock 1st January, 19..	17,375	14	2			
Purchases	28,724	16	8			
Sales				71,520	16	10
Returns Inwards	846	12	6			
Returns Outwards				327	3	11
Sundry Debtors	33,626	1	2			
Land and Buildings	20,000	–	–			
Machinery and Plant	22,672	–	–			
Patents	6,000	–	–			
Sundry Creditors				11,834	14	9
Manufacturing Wages	14,720	6	10			
Manufacturing Charges	6,107	15	6			
General Expenses	2,025	10	6			
Rates and Taxes	350	11	8			
Interest and Bank Charges	120	14	10			
Discounts Received				621	15	6
Bad Debts	1,326	13	8			
Salaries	2,048	6	10			
Insurance	140	–	–			
Travellers' Salaries and Expenses	4,619	12	8			
Discounts Allowed	1,857	16	4			
Bad Debts Reserve 1st January, 19..				1,376	5	6
Directors Fees	320	–	–			
Interim Ordinary Dividend paid	1,998	–	–			
Half Year's Preference Dividend	900	–	–			
Reserve Account				3,000	–	–
Profit and Loss Account 1st January				1,850	8	4
Cash in hand	276	14	8			
Cash at Bank	4,623	16	10			
	£170,731	4	10	£170,731	4	10

The Stock on hand at 31st December, 19.., was valued at £18,469 12s. 6d., and the following adjustments are necessary—

Insurance Unexpired, £22 10s.
Reserve for Audit Fee, £100.
Depreciation—
  Land and Buildings, 2 per cent.
  Plant and Machinery, 10 per cent.
  Patents, 10 per cent.
Reserve for Bad Debts, 5 per cent of Sundry Debtors.
Transfer £1,000 to the Reserve Account.

The Trading and Profit and Loss Account has already been prepared, and appears on page 529. The Balance Sheet is given at the top of page 545.

Annual List and Summary

After the Annual General Meeting has been held, the company must prepare and send to the Registrar of Companies, the Annual List and Summary of Capital and Shares.

The provisions of the Companies Acts are as follows—

"Every company having a share capital must once at least in every year make a return containing a list of all persons who, on the fourteenth day after the first or only ordinary general meeting in the year, are members of the company, and of all persons who have ceased to be members since the date of the last return or (in the case of the first return) of the incorporation of the company.

BALANCE SHEET AS AT 31ST DECEMBER, 19..

Capital and Liabilities	£	s	d	£	s	d	*Property and Assets*	£	s	d	£	s	d.
Nominal Capital—							Land and Buildings	20,000	–	–			
60,000 Ordinary Shares of £1	60,000	–	–				*Less* Depreciation	400	–	–			
30,000 Preference Shares of £1	30,000	–	–								19,600	–	–
	£90,000	–	–				Plant and Machinery	22,672	–	–			
Issued Capital—							*Less* Depreciation	2,267	4	–	20,404	16	–
30,000 Preference Shares of £1				30,000	–	–	Patents	6,000	–	–			
50,000 Ordinary Shares of £1	50,000	–	–				*Less* Depreciation	600	–	–			
Less Calls in Arrear	50	–	–								5,400	–	–
	49,950	–	–				Stock-in-Trade				18,469	12	6
Add Calls paid in Advance	200	–	–				Sundry Debtors	33,626	1	2			
				50,150	–	–	*Less* Bad Debts Reserve	1,681	6	1	31,944	15	1
Sundry Creditors				11,834	14	9	Unexpired Insurance				22	10	–
Reserve for Audit Fee				100	–	–	Cash in hand	276	14	8			
Reserve Account	3,000	–	–				Cash at Bank	4,623	16	10			
Added this Year	1,000	–	–								4,900	11	6
				4,000	–	–							
Profit and Loss Account—													
Balance 1st January, 19	1,850	8	4										
Add Profit for Year	6,705	2	–										
	8,555	10	4										
Less Preference Share Dividend	900	–	–										
	7,655	10	4										
Less Ordinary Share Dividend	1,998	–	–										
	5,657	10	4										
Less Transfer to Reserve	1,000	–	–										
				4,657	10	4							
				£100,742	5	1					£100,742	5	1

The list must state the names, addresses, and occupations of all the past and present members therein mentioned, either in alphabetical order or accompanied by an index, and the number of shares held by each of the existing members at the date of the return, specifying shares transferred since the date of the last return or (in the case of the first return) of the incorporation of the company by persons who are still members and have ceased to be members respectively and the dates of registration of the transfers, and must contain a summary distinguishing between shares issued for cash and shares issued as fully or partly paid-up otherwise than in cash, and specifying the following particulars—

(*a*) The amount of the share capital of the company, and the number of the shares into which it is divided;

(*b*) The number of shares taken from the commencement of the company up to the date of the return;

(*c*) The amount called up on each share;

(*d*) The total amount of calls received;

(*e*) The total amount of calls unpaid;

(*f*) The total amount of the sums (if any) paid by way of commission in respect of any shares or debentures, or allowed by way of discount in respect of any debentures, since the date of the last return;

(*g*) The total number of shares forfeited;

(*h*) The total amount of shares or stock for which share warrants are outstanding at the date of the return;

(*i*) The total amount of share warrants issued and surrendered respectively since the date of the last return;

(*k*) The number of shares or amount of stock comprised in each share warrant;

(*l*) The names, addresses, and statutory particulars of the persons who at the date of the return are the directors of the company, or occupy the position of directors, by whatever name called; and

(*m*) The total amount of the indebtedness of the company in respect of all mortgages and charges which are required (or, in the case of a company registered in Scotland, which, if the company had been registered in England, would be required) to be registered with the Registrar of Companies under this Act, or which would have been required so to be registered if created after the first day of July, 1908."

The annual return must also (except where the company is a private company) include a statement, made up to such date as may be specified in the statement, in the form of a Balance Sheet, audited by the company's auditors (including every document required by law to be annexed thereto) together with a copy of the auditors' report.

The annual return must be contained in a separate part of the Register of Members, and

No of Certificate

Form No. 6a

"THE COMPANIES ACTS, 1908 to 1928"

FORM E

AS REQUIRED BY THE COMPANIES ACTS, 1908–1928.

A 5s Companies' Registration Fee Stamp must be *impressed* here

Summary of Share Capital and Shares of . . . . Limited made up to the....... day of .... 19.. (being the fourteenth day after the date of the First Ordinary General Meeting in 19..).

Nominal Share Capital, £ . Divided into[1] { . . .. Shares of £[1] } . ... each

Total Number of Shares taken up[1] to the.....day of......... .. ..19.. (which number must agree with the total shown in the list as held by existing members) . . .

Number of Shares issued subject to payment wholly in cash . . . . . .

Number of Shares issued as fully paid up otherwise than in cash . . . . .

Number of Shares issued as partly paid up to the extent of ... . per Share otherwise than in cash . . . .

[2]There has been called up on each of . ...Shares . . . . £

,, ,, ,, ... ,, ... £

,, ,, ,, ... ,, ... £

[3]Total amount of Calls received, including payments on application and allotment . £

Total amount (if any) agreed to be considered as paid on..... . .Shares which have been issued as fully paid up otherwise than in cash . . . . £

Total amount (if any) agreed to be considered as paid on ... .Shares which have been issued as partly paid up to the extent of per Share . . . . £

Total amount of Calls unpaid . . . . £

Total amount (if any) of sums paid by way of Commission in respect of shares or debentures or allowed by way of Discount since the date of last Summary . . . . . £

Total amount (if any) paid on[4].. .... Shares forfeited . . . . £

Total amount of Shares and Stock for which Share Warrants are outstanding { Shares . £ / Stock . £ }

Total amount of Share Warrants issued and surrendered respectively since date of last Summary . . . . { Issued . £ / Surrendered . £ }

Number of Shares or amount of Stock comprised in each Share Warrant . . . . { Number of Shares . / Amount of Stock . £ }

Total amount of debt due from the Company in respect of all mortgages and charges which are required (or, in the case of a Company registered in Scotland, which, if the Company had been registered in England, would be required) to be registered with the Registrar of Companies, or which would require registration if created on and after the 1st day of July, 1908 . . . . £

NOTE.—Banking Companies must add a list of all their places of business

[1] *Where there are Shares of different kinds or amount (e g Preference and Ordinary, or £10 and £5), state the numbers and nominal values separately.*

[2] *Where various amounts have been called, or there are Shares of different kinds, state them separately*

[3] *State the Aggregate number of Shares forfeited (if any).*

[4] *Include what has been received on forfeited, as well as on existing Shares*

☞ The Return must be signed, at the End, by the Manager or Secretary of the Company

Presented for filing by.... ....

List of Persons holding Shares in .. . . Limited, on the .. . .day of . . . . , 19.., and of Persons who have held Shares therein at any time since the date of the last Return, or (in the case of the first Return) of the incorporation of the Company, showing their Names and Addresses, and an Account of the Shares so held.

Folio in Register Ledger containing Particulars	NAMES, ADDRESSES, AND OCCUPATIONS				ACCOUNT OF SHARES					REMARKS
					[1] Number of Shares held by existing Members at date of Return [2]	[3] Particulars of Shares transferred since the date of the last Return or (in the case of the first Return) of the incorporation of the Company by Persons who are still Members		[3] Particulars of Shares transferred since the date of the last Return or (in the case of the first Return) of the incorporation of the Company by Persons who have ceased to be Members		
	SURNAME	CHRISTIAN NAME	ADDRESS	OCCUPATION		Number[2]	Date of Registration of Transfer	Number[2]	Date of Registration of Transfer	

(Signature)..................................

(State whether Manager or Secretary)

[1] The Aggregate Number of Shares held, and not the Distinctive Numbers, must be stated, and the column must be added up throughout, so as to make one total to agree with that stated in the Summary to have been taken up.

[2] When the Shares are of different classes these columns may be subdivided, so that the number of each class held, or transferred, may be shown separately.

[3] The Date of Registration of each Transfer should be given, as well as the Number of Shares transferred on each date. The particulars should be placed opposite the name of the Transferor, and not opposite that of the Transferee, but the name of the Transferee may be inserted in the "*Remarks*" column, immediately opposite the particulars of each Transfer.

STATEMENT in the form of a Balance Sheet made up to the 31st day of December, 19.., containing the particulars of the Capital, Liabilities, and Assets of the Company.

Capital and Liabilities	£	s.	d	£	s	d
Nominal Capital—						
60,000 Ordinary Shares of £1 each	60,000	–	–			
60,000 Preference Shares of £1 each	60,000	–	–			
	£120,000	–	–			
Issued Capital—						
20,000 Ordinary Shares of £1 fully paid				20,000	–	–
20,000 Ordinary Shares of £1, 15s. called	15,000	–	–			
Add Calls paid in advance	300	–	–			
				15,300	–	–
28,°00 Preference Shares of £1 each, 15s paid				21,600	–	–
6% Mortgage Debentures— 200 Bonds of £100 each				20,000	–	–
Sundry Creditors				7,081	10	6
Forfeited Shares (1,200 10s paid)				600	–	–
Profit and Loss Account— Balance at credit				8,656	12	8
				£93,238	3	2

Property and Assets	£	s	d	£	s	d
Freehold Land (at cost less depreciation)				11,048	16	10
Buildings (at cost less depreciation)				12,766	18	6
Goodwill (at cost)				8,000	–	–
Fixed Plant and Machinery (at cost less depreciation				12,046	19	10
Loose Plant and Tools (as valued by the company's Manager)				7,656	10	6
Stocks on hand				11,076	12	9
Sundry Debtors				12,125	10	8
Cash in hand and at Bank				18,516	14	1
				£93,238	3	2

Signed .. . .

Auditors to the Company.

NOTE —This statement is not required from a "Private Company" within the meaning of Sect. 121 (1) of the Companies (Consolidation) Act, 1908, as amended by the Companies Act, 1913. But Sect. 1 (3) of the latter Act requires that—

(3) Every private company shall send with the annual list of members and summary required to be sent under Sect. 26 of the Companies (Consolidation) Act, 1908, a certificate signed by a director or the secretary that the company has not, since the date of the last return, or in the case of a first return since the date of the incorporation of the company, issued any invitation to the public to subscribe for any shares or debentures of the company; and, where the list of members discloses the fact that the number of members of the company exceeds fifty, also a certificate so signed that such excess consists wholly of persons who under Sect. 121 of that Act, as amended by this section, are to be excluded in reckoning the number of fifty.

Names, etc., of the [1]Directors of. . . . . . Limited,
on the.. .. day of . 19..

[2]The present Christian Name or Names and Surname	[3]Any former Christian Name or Names or Surname	Nationality	Nationality of Origin (if other than present Nationality)	Usual Residence	Other Business Occupation(s) if any

[1] "Director" incl des any person who occupies the position of a Director and any person in accordance with whose directions or instructions the Directors of a Com any are accustomed to act

[2] Christian name includes any forename. In the case of a Peer or a person usually known by a British title different from his surname, the title by which he is known must be substituted for his surname.

[3] In the case of natural-born British subjects, a former Christian name or surname should not be shown where that name or surname has been changed or disused before the person bearing the name had attained the age of eighteen years; and in the case of a married woman the name or surname by which she was known previous to the marriage should not be given.

must be completed within fourteen days after the fourteenth day aforesaid, and the company must forthwith forward to the registrar of companies a copy signed by a director or by the manager or by the secretary of the company.

If a company makes default in complying with the requirements of this section, it is liable to a fine not exceeding £5 for every day during which the default continues, and every director and manager, secretary, or other officer of the company who knowingly and wilfully authorizes or permits the default shall be liable to the like penalty.

The return must also state the address of the registered office of the company.

Amalgamation of Companies

Joint stock companies which carry on a similar business often combine or amalgamate, the new company being formed for the express purpose of acquiring and carrying on two or more companies, probably competing against one another. These combines are, therefore, effected in order to reduce competition, and for the purpose of economy in working. Establishment charges and management expenses can be considerably lowered; for the new company can do the combined turnovers of the other companies with very little increase in its own working expenses. The old companies have, of course, to go into liquidation and be wound up. There is, however, no return of capital to contributories, the shareholders receiving instead a number of fully paid shares in the new company, according to the number and value of the shares they hold in the old company. The new company takes over the assets of the old companies, and also assumes their liabilities. The assets are taken over at an agreed valuation, and very often new and revised Balance Sheets have to be prepared, which serve as a basis for the proposed amalgamation. Where the Balance Sheets contain credit balances of Profit and Loss Account, Dividend Reserve Account, Reserve Account, etc., such accumulated profit balances are usually capitalized, and extra shares issued to the shareholders in respect of them.

In distributing the new company's shares to the shareholders concerned, difficulties sometimes arise through such distribution involving fractions of shares. Since such shares cannot be split up, it is usual to allot to the liquidator shares equal to the total of such fractions. These shares are sold by the liquidator, and the proceeds distributed by him to the shareholders concerned. Thus, suppose 80 shareholders had to receive half a share each. There would have to be a forced realization of 40 shares, and the proceeds divided equally among the shareholders affected. The 40 shares would still form part of the company's issued capital, but the shares would be in different hands.

Worked Example of Amalgamation

The X Co., Ltd., and the Y Co., Ltd., whose businesses are similar, decide to amalgamate on the basis of their revised Balance Sheets given below, and a new company, The X Y Company, Limited, is formed to carry out the arrangement. It is desired to show the entries necessary to wind up the old companies and to open the books of the new company, and also to show the new company's Balance Sheet, as at 1st March, 19.., the date of amalgamation.

BALANCE SHEET OF THE X CO., LIMITED

AS AT 1ST MARCH, 19..

Capital and Liabilities	£	s.	d	*Property and Assets*	£	s.	d.
Share Capital—				Land and Buildings	40,000	–	–
80,000 Shares of £1 each, fully paid	80,000	–	–	Plant and Machinery	20,000	–	–
Sundry Creditors	7,350	–	–	Goodwill	12,000	–	–
Reserve Account	4,000	–	–	Stock	10,000	–	–
Dividend Reserve Account	2,650	–	–	Sundry Debtors	12,850	–	–
Profit and Loss Account	3,350	–	–	Cash at Bank	2,500	–	–
	£97,350	–	–		£97,350	–	–

BALANCE SHEET OF THE Y CO., LIMITED

As at 1st March, 19..

Capital and Liabilities	£	s.	d.	*Property and Assets*	£	s	d.
Share Capital—				Land and Buildings	32,000	–	–
70,000 Shares of £1 each, fully paid	70,000	–	–	Plant and Machinery	16,000	–	–
Sundry Creditors	6,550	–	–	Goodwill	12,000	–	–
Reserve Account	7,500	–	–	Stock	7,000	–	–
Profit and Loss Account	2,500	–	–	Sundry Debtors	18,050	–	–
				Cash at Bank	1,500	–	–
	£86,550	–	–		£86,550	–	–

The amounts due to the shareholders of the X and Y Companies are as follows—

X	£	Y	£
Capital Account	80,000	Capital Account	70,000
Reserve Account	4,000	Reserve Account	7,500
Dividend Reserve Account	2,650	Profit and Loss Account	2,500
Profit and Loss Account	3,350		
	£90,000		£80,000

which is represented by—

X	£	Y	£
Gross Assets	97,350	Gross Assets	86,550
Less Creditors	7,350	*Less* Creditors	6,550
	£90,000		£80,000

The proportion of the Capitals in the Old and New Companies are—

	Old		New		Old		New
X	80,000	:	90,000	or	8	:	9
Y	70,000	:	80,000	or	7	:	8

Therefore, 90,000 shares of £1 each, fully paid, must be issued to the shareholders of the X Company; that is, 9 shares in the new company must be given in exchange for every 8 shares in the X Company. And 80,000 shares of £1 each, fully paid, must be issued to the shareholders of the Y Company, that is, 8 shares in the new company must be given in exchange for every 7 shares in the Y Company.

The Journal entries in the X Company's books would be as follows—

JOURNAL

Date		Particulars	Dr. £	s.	d.	Cr. £	s.	d.
19.			£	s.	d.	£	s.	d.
Mar	1	Share Capital Account	80,000	–	–			
		Reserve Account	4,000	–	–			
		Dividend Reserve Account	2,650	–	–			
		Profit and Loss Account	3,350	–	–			
		To Sundry Shareholders Account				90,000	–	–
		Balances transferred						
	1	Realization Account	97,350	–	–			
		To Land and Buildings				40,000	–	–
		,, Plant and Machinery				20,000	–	–
		,, Goodwill				12,000	–	–
		,, Stock				10,000	–	–
		,, Sundry Debtors				12,850	–	–
		,, Cash at Bank				2,500	–	–
		Sundry assets sold to the X Y Co., Ltd , as per Agreement dated						
	1	Sundry Creditors	7,350	–	–			
		To Realization Account				7,350	–	–
		Sundry liabilities taken over by the X Y Co., Ltd , as per Agreement dated						
	1	X Y Co., Ltd.	90,000	–	–			
		To Realization Account				90,000	–	–
		Purchase price of business as per Agreement dated						
	1	X Y Co. Shares Account	90,000	–	–			
		To X Y Co., Ltd				90,000	–	–
		Receipt of 90,000 Shares of £1 each, fully paid, in discharge of purchase price of business, as per Agreement dated . . .						
	1	Sundry Shareholders Account	90,000	–	–			
		To X Y Co Shares Account				90,000	–	–
		Issue of 9 new shares in exchange for every 8 in the X Co., Ltd.						

The Journal entries in the Y Company's books would be as follows—

JOURNAL

Date		Particulars	Dr. £	s	d.	Cr. £	s	d.
19..			£	s	d.	£	s	d.
Mar.	1	Share Capital Account	70,000	–	–			
		Reserve Account	7,500	–	–			
		Profit and Loss Account	2,500	–	–			
		To Sundry Shareholders Account				80,000	–	–
		Balances transferred.						
	1	Realization Account	86,550	–	–			
		To Land and Buildings				32,000	–	–
		,, Plant and Machinery				16,000	–	–
		,, Goodwill				12,000	–	–
		,, Stock				7,000	–	–
		,, Sundry Debtors				18,050	–	–
		,, Cash at Bank				1,500	–	–
		Sundry assets sold to the X Y Co., Ltd., as per Agreement dated.						
	1	Sundry Creditors	6,550	–	–			
		To Realization Account				6,550	–	–
		Sundry liabilities taken over by the X Y Co , Ltd., as per Agreement dated						
		X Y Company, Ltd.	80,000	–	–			
		To Realization Account				80,000	–	–
		Purchase price of business as per Agreement dated..						
	1	X Y Co. Shares Account	80,000	–	–			
		To X Y Company, Ltd.				80,000	–	–
		Receipt of 80,000 Shares of £1 each, fully paid, in discharge of purchase price of business.						
	1	Sundry Shareholders Account	80,000	–	–			
		To X Y Co. Shares Account				80,000	–	–
		Issue of 8 new shares in exchange for every 7 in the Y Co., Ltd.						

The Journal entries in the new company's, the X Y Company's, books would be as follows—

JOURNAL

		Dr £	s	d	Cr. £	s	d
19.. Mar. 1	Land and Buildings	40,000	–	–			
	Plant and Machinery	20,000	–	–			
	Goodwill	12,000	–	–			
	Stock	10,000	–	–			
	Sundry Debtors	12,850	–	–			
	Cash at Bank	2,500	–	–			
	To Sundry Creditors				7,350	–	–
	,, Liquidator X Co., Ltd				90,000	–	–
	Sundry assets and liabilities taken over from the X Co, Ltd, as per Agreement dated						
1	Liquidator X Co, Ltd	90,000	–	–			
	To Share Capital Account				90,000	–	–
	Issue of 90,000 Shares of £1 each, credited as fully paid, in payment of the purchase price of the business, as per Agreement dated						
1	Land and Buildings	32,000	–	–			
	Plant and Machinery	16,000	–	–			
	Goodwill	12,000	–	–			
	Stock	7,000	–	–			
	Sundry Debtors	18,050	–	–			
	Cash at Bank	1,500	–	–			
	To Sundry Creditors				6,550	–	–
	,, Liquidator Y Co, Ltd.				80,000	–	–
	Sundry assets and liabilities taken over from the Y Co, Ltd., as per Agreement dated						
1	Liquidator Y Co., Ltd.	80,000	–	–			
	To Share Capital Account				80,000	–	–
	Issue of 80,000 shares of £1 each, credited as fully paid, in payment of the purchase price of the business, as per Agreement dated						

BALANCE SHEET OF THE X Y CO., LTD.

AS AT 1ST MARCH, 19..

Capital and Liabilities	£	s.	d.	*Property and Assets*	£	s.	d.
Share Capital—				Land and Buildings	72,000	–	–
170,000 Shares of £1 each, fully paid	170,000	–	–	Plant and Machinery	36,000	–	–
Sundry Creditors	13,900	–	–	Goodwill	24,000	–	–
				Stock	17,000	–	–
				Sundry Debtors	30,900	–	–
				Cash at Bank	4,000	–	–
	£183,900	–	–		£183,900	–	–

Purchase of a Business

A large number of joint stock companies are formed for the express purpose of acquiring and working an old-established business. The money paid for the business is called the "purchase price," and the person who sells the business to the company is termed the "vendor."

Generally speaking, the business is taken over as a "going concern," that is, exactly as it stands, all its liabilities and all its assets, including even its cash. Thus there is no stoppage of business. In some cases, however, the cash of the old business is not taken over, neither are the liabilities, which are then left for the vendor himself to discharge. These, of course, are matters for arrangement between the parties concerned.

The purchase price of the business is usually paid partly in cash and partly in fully paid shares and debentures (if any) of the newly-formed company. There are two good reasons for this procedure. The company cannot pay all the money it receives on its shares away to the vendor, as it must retain some for working capital with which to run the business. Further, if the vendor required all the purchase price to be paid in cash, such action would be viewed with suspicion by the investing public, and there would be difficulty in disposing of the shares. But where the vendor himself takes a large number of shares in the company, this inspires confidence, and leads the public more readily to invest in it.

A company taking over a good paying business has, of course, to pay a considerable sum for "goodwill," or the volume of trade to which it will have the sole right. When a company takes over assets only, then the value of the goodwill will be the difference between the purchase price of the business and the value of the assets; thus, suppose the purchase price was £80,000, and the value of the assets taken over was £60,000, then £20,000 would represent the goodwill.

When a company takes over all the assets and all the liabilities, the difference between the assets and liabilities is called the capital value of the business, and the goodwill will be the excess of the purchase price over this capital value.

Thus, suppose the assets amount to £80,775, and the liabilities to £20,775, then the difference will represent the capital value of the business, namely, £60,000; and if the purchase price of the business is £80,000, then the amount paid for goodwill is obviously £20,000. A separate Ledger Account is opened for "Goodwill," which is then treated as an asset in the company's Balance Sheet.

Worked Example of the Purchase of a Business

A joint stock company with a registered Capital of £100,000, consisting of 50,000 Ordinary Shares of £1 each, and 50,000 6 per cent Preference Shares of £1 each, and £40,000 6 per cent Debentures in bonds of £100 each, purchased as a going concern for £80,000 the business of Messrs. Sporr and Koff, as per the following particulars—

BALANCE SHEET OF SPORR AND KOFF

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Bills Payable	6,715	–	–	Cash at Bank	4,606	–	–
Sundry Creditors	14,060	–	–	Bills Receivable	3,108	–	–
Capital	60,000	–	–	Sundry Debtors	20,465	–	–
				Freehold Premises	20,000	–	–
				Plant and Machinery	20,000	–	–
				Stock-in-trade	8,906	–	–
				Furniture and Fixtures	3,690	–	–
	£80,775	–	–		£80,775	–	–

The purchase price was to be paid, £20,000 in fully paid Ordinary Shares, £20,000 in fully paid Preference Shares, £20,000 in fully paid Debentures, and the balance of £20,000 in Cash. The remainder of the Shares and Debentures were offered to the public, and were all subscribed and fully paid up.

It is desired to make the necessary Journal and Cash Book entries, and to draw up the Company's Balance Sheet, assuming the date of the transactions, in the Company's books, to be 1st March, 19..

JOURNAL

Date		Dr. £	s.	d.	Cr. £	s.	d.
19.. Mar. 1	Business Purchase Account	80,000	–	–			
	To Sporr & Koff (Vendors)				80,000	–	–
	As per Agreement dated ..						
1	Cash at Bank	4,606	–	–			
	Bills Receivable	3,108	–	–			
	Sundry Debtors	20,465	–	–			
	Freehold Premises	20,000	–	–			
	Plant and Machinery	20,000	–	–			
	Stock-in-trade	8,906	–	–			
	Furniture and Fixtures	3,690	–	–			
	Goodwill	20,000	–	–			
	To Business Purchase Account				100,775	–	–
	Sundry Assets acquired as per Agreement dated						
1	Business Purchase Account	20,775	–	–			
	To Bills Payable				6,715	–	–
	,, Sundry Creditors				14,060	–	–
	Sundry liabilities taken over as per Agreement dated						
1	Sporr & Koff (Vendors)	60,000	–	–			
	To Ordinary Share Capital				20,000	–	–
	20,000 Shares of £1 each						
	To Preference Share Capital				20,000	–	–
	20,000 Shares of £1 each						
	To Debentures				20,000	–	–
	200 Bonds of £100 each						
	Shares and Debentures issued as fully paid, in part payment of the purchase price of the business, as per Agreement dated .						
1	Ordinary Shareholders	30,000	–	–			
	To Ordinary Share Capital				30,000	–	–
	30,000 Shares of £1 each.						
1	Preference Shareholders	30,000	–	–			
	To Preference Share Capital				30,000	–	–
	30,000 Shares of £1 each						
1	Debenture Holders	20,000	–	–			
	To Debentures				20,000	–	–
	200 Bonds of £100 each						

Dr. CASH BOOK *Cr*

Receipts	Bank £	s	d.	Payments	Bank £	s.	d.
To Balance	4,606	–	–	By Sporr & Koff (Vendors)	20,000	–	–
,, Ordinary Shareholders	30,000	–	–	,, Balance c/d	64,606	–	–
,, Preference Shareholders	30,000	–	–				
,, Debenture Holders	20,000	–	–				
	£84,606	–	–		£84,606	–	–
To Balance b/d	64,606	–	–				

BALANCE SHEET OF SPORR & KOFF, LTD.

AS AT 1ST MARCH, 19..

Capital and Liabilities	£	s.	d.	*Property and Assets*	£	s.	d.
Nominal and Issued Capital—				Freehold Premises	20,000	–	–
50,000 Ordinary Shares of £1 each	50,000	–	–	Goodwill	20,000	–	–
50,000 Preference Shares of £1 each	50,000	–	–	Plant and Machinery	20,000	–	–
6% Debentures—				Furniture and Fixtures	3,690	–	–
400 Bonds of £100	40,000	–	–	Stock-in-trade	8,906	–	–
Sundry Creditors	14,060	–	–	Sundry Debtors	20,465	–	–
Bills Payable	6,715	–	–	Bills Receivable	3,108	–	–
				Cash at Bank	64,606	–	–
	£160,775	–	–		£160,775	–	–

CHAPTER XXXV

FINANCE

HAPPY is the business that needs no financing. The trader who is always able to keep his money matters in such a condition that his most serious problem arises over investing an occasional surplus, is a man whom many envy.

One of the chief modern difficulties in commerce lies in the fact that if an enterprise is worked on successful lines it can expand to-day at a very rapid rate. A manufacturer, for example, who finds an increasing demand for his goods in the two counties he works can reasonably expect they will sell in the counties in which he does not yet offer them.

Capital Required for Expansion

With this expansion there is necessarily a need for more money. A man with £10,000 capital turning over £40,000 may have ample money for his purpose. But should demand suddenly double his turnover, his capital can become entirely inadequate. A man may be able to turn over his capital easily and without strain, say, four times a year, but would be, at once, in a tight corner were he to attempt to do it eight times.

The reason is not far to seek.

Such a man might be able to obtain as long credit as he gives, and apparently there would not be any strain here.

But there would be a strain in other places.

For example. Supposing he had £2,000 worth of plant and fixtures in order to turn over £40,000 a year; if he only needs to add £1,000 worth to this for plant to meet the needs of the doubled trade, that £1,000 comes off his available liquid money.

Then again if he has to double the number of his factory employees he must pay their wages weekly, and here is a second strain.

Capital Built up out of Profits

One of the most remarkable facts about many famous old firms of this country, is that they did, somehow, contrive to meet the difficulty of expanding business without appealing for outside capital.

This was probably due to the fact that a great brand could be established at relatively low advertising costs or, in some instances at no cost at all, for some quite well-known commodities were placed upon the market through salesmanship and achieved reputation and publicity chiefly through their display in the actual shops.

In these days movements are quicker, and the firm assured of success is more anxious to exploit the market to its fullest possibilities at once, than to wait too long for natural growth.

Capital from Outside Sources

Hence instead of attempting to build capital out of profits, the present method is to obtain outside money at every stage in which the action appears to be justified.

The growing sense in commerce that capital is for use, causes business men to look upon financing in a rather different way than may once have been the case.

A trader or manufacturer in the old days who was finding his goods in fair demand would probably reason: "I must not expand too quickly. I must always retain sufficient money in hand to meet emergencies."

To-day the same man would say. I have £5,000 in this business, and I make £1,500 a year profit. If I can use £10,000 I shall make £3,000 a year profit.

He sees money not so much as the protection of a well-defined compact business, but as the great power centre which can use the business as an adaptable and flexible implement for money making.

"If I can use more money, I can make more."

Dangers of Overtrading

In consequence he may do what many are doing at the present time: he may use the money he has up to the utmost limit of its power, and in doing so, have intervals when he uses it beyond its legitimate power.

This is overtrading, and one of the reasons why success itself is often a cause of ultimate disaster.

It is a very possible thing in trade for a man to make profits he cannot draw.

This was often the case in the creation of some of those businesses to which reference has been already made. Where a manufacturing firm

developed during fifty years from a single shed till their works covered acres and never brought in outside money till the business was shown to be worth its million or more, it is self-evident the partners did not draw all their profits. What is not perhaps as obvious is the fact that they couldn't.

And the same fact holds good to-day.

Expanding business means that more capital must be available.

Financial Expedients

The question of finance, therefore, is one which in these days of keen competition necessitating large resources or additional ones at important moments, becomes of vital importance, and the means of obtaining further sums of money, beyond the original capital, are both numerous and varied. Not only so, but in the case of large companies, there arises at times the further question of reorganizing the share capital, or of converting it into stock, in order to facilitate market dealings. In times of financial prosperity, there arises, too, the question of capitalizing the profits by the issue of bonus shares; while, in times of financial straits, the drastic remedy of reduction of capital in order to wipe out losses must sometimes be resorted to.

Bank Overdraft

One of the commonest methods of obtaining further financial resources is by means of a Bank Overdraft. To secure an overdraft on Current Account, a trader, or partnership, or joint stock company must deposit some security such as negotiable documents, share certificates, life policies, bills of lading or dock warrants.

In the case of a life policy, the banker may require an assignment of the policy, or he may simply allow it to be deposited with him. The amount of the overdraft will be one well within the surrender value of the policy.

Notice of the assignment (if made) will be sent to the Assurance Company for registration in their books. Renewal premiums must be duly paid in order to prevent the policy from lapsing. When the overdraft is paid off, the policy will be re-assigned to the customer.

In the case of a bill of lading, the banker will generally require this to be indorsed to him; for, under the Factors Act, 1889, he will then be in a position, should the overdraft not be repaid, to realize his security.

Title deeds to land and house property are also accepted. This form of security cannot be promptly realized, and a forced sale may result in a considerable loss being sustained. The banker will, therefore, require a very large "safety margin" before granting the overdraft. The deposit of the title deeds is known as an "equitable mortgage." Some bankers also accept as security a reversion, that is, a future right to property under some will or settlement.

Another form of security which a banker will accept is a guarantee. This is a promise by one person to be answerable for the debt of another. By the Statute of Frauds, it must be in writing, and must be signed by the person to be charged. The guarantee may be signed by two or more persons, instead of one only; and if the guarantee is both joint and several, the banker can proceed against any or all of the parties so signing.

A "limited" guarantee is one which is limited to a certain time, and a "continuing" guarantee is one which continues until revoked or the death of the guarantor. It is usual to renew guarantees every five years, in order to prevent them from lapsing under the Statute of Limitations. A guarantee requires a 6d. stamp.

Bank Loan

The procedure with a Bank Loan will be similar, as regards the security, to that for an overdraft. There is a difference, however, to the customer. In the case of a Loan, he will be allowed to draw the full amount, or to have it placed to his credit; but, in the case of an Overdraft, he will not have the amount placed to his credit, but will be allowed to go on overdrawing up to the stipulated limit. In each case, however, he will be charged with interest for the use of the banker's money.

Debentures

Another method of raising money is by the issue of debentures, but whereas the two previous methods are capable of being used by sole traders and partners, this third method can only be used by joint stock companies, private or public.

Debentures are loans to limited companies for a certain number of years, interest being payable thereon at a fixed rate per annum. If the principal is not repayable at the end of a stated period, such debentures are irredeemable during the existence of the company. Irredeemable debentures are issued by railway and other large companies.

Mortgage Debentures are those which are secured on the property of the company, the

charge being either on one or two particular assets, as plant, or land and buildings, or on the company's assets as a whole.

Simple or Naked Debentures are those which afford no security either for payment of interest or return of principal.

Floating Debentures are those which are secured by a floating charge on the company's property.

Bearer Debentures are those which are payable to bearer, and thus transferable by simple delivery. They sometimes give the holder the right to have such debentures placed on the register, and also to have them again withdrawn from it.

Registered Debentures are debentures payable to a registered holder, with or without interest coupons to bearer. All transfers of these must be duly registered with the company.

Perpetual Debentures

A condition contained in any debentures, or in any deed for securing any debentures, is not invalid by reason only that thereby the debentures are made irredeemable or redeemable only on the happening of a contingency, however remote, or on the expiration of a period, however long.

Power to Re-issue Redeemed Debentures

Where a company has redeemed any debentures previously issued, the company, unless the Articles or conditions of issue expressly otherwise forbid, has power to keep the debentures alive for the purpose of re-issue, and may either issue the same debentures or issue others in their place.

Where a company has deposited any of its debentures to secure advances from time to time on current account or otherwise, the debentures are not deemed to have been redeemed by reason only of the account of the company having ceased to be in debit while the debentures remained so deposited.

Trust Deed

The property of the company included in the charge is frequently conveyed by way of mortgage to a trustee or trustees for the debenture holders. This document is called a "trust deed," and reference to such trust deed and conditions must be made on every debenture covered by it.

Floating Charge

Where the property mortgaged comprises assets other than freeholds and leaseholds, such as stock and book debts, the charge is called a "floating charge," and the company is able to deal with its movable property in the ordinary course of business. A floating charge attaches to the assets in whatever condition they happen to be from time to time, but remains dormant all the while the company is a going concern, or until after default in payment of the interest on the debentures.

Rights of a Debenture Holder

A debenture holder who has a charge on the company's assets, possesses the following rights—

1. He may sue for repayment of the principal and any interest which is owing.
2. He may present a winding-up petition against the company.
3. He may prove for the debt in the winding up.
4. He may appoint a receiver.

Where a company is only temporarily embarrassed, it is most usual to exercise the last right, and apply to the courts to sanction the appointment of a receiver and manager, who will control the business until the debentures and accrued interest have been paid off.

BALANCE SHEET

Capital and Liabilities	£	*s.*	*d.*	£	*s*	*d.*
Authorized Debentures—						
600 bonds of £100 each	60,000	–	–			
Issued Debentures—						
400 bonds of £100 each				40,000	–	–
Loan from Bankers				2,000	–	–
(Collaterally secured by the issue of £5,000 Debentures).						

Debentures as Collateral Security

When a company issues debentures as security for a bank overdraft or a bank loan, this fact should be noted on its Balance Sheet by entering the amount of the debentures so issued *in short*, i.e. not extending the figures into the money columns of the Balance Sheet, a note being added to explain why the debentures have been issued, as shown on page 560.

A collateral security is a secondary or subsidiary security, and is not intended to be realized, unless the principal security proves insufficient.

Difference Between Debentures and Debenture Stock

Debenture Stock is borrowed money consolidated into one sum for the sake of convenience. Debenture Stock must always be fully paid; but debentures may be only partly paid. Debenture Stock is transferable in multiples of a pound; but debenture bonds are transferable only in their entirety.

Difference Between a Debenture Holder and a Shareholder

A shareholder is an inside person, a *partner* in the company; a debenture holder is an outside person, a *creditor* of the company. A shareholder shares in the profits, receiving a *dividend* on the capital he has invested; a debenture holder gets *interest* on the money he has lent, whether there are profits to divide or not.

Mortgages and Charges

As the issue of debentures may, in some cases, be detrimental to the interests of the shareholders and creditors, special safeguards have been introduced into the Companies Acts in order to ensure that the utmost publicity shall be given to such an issue. This is done by requiring that every mortgage or charge created by a company registered in England or Ireland must be registered by the Registrar of Companies, as explained on page 522.

Register of Mortgages and Charges

Besides the register kept by the Registrar of Companies, each company must itself, by law, keep a register of mortgages and charges.

In this book, a ruling of which appears on page 522, must be entered all mortgages and charges specifically affecting the property of the company. The register must be open at all reasonable times to the inspection of any person on payment of a fee not exceeding 1s. for each inspection.

Debenture Bond

A specimen of a debenture bond is shown on page 523.

Entries for Debentures in the Company's Books

Debentures may be issued to the public *at par*, that is, at a price equal to their face value, as a £100 bond for £100, *at a premium*, that is, at a price above their face value, as a £100 bond for £105; *at a discount*, that is, at a price below their face value, as £100 bond for £95.

Debentures may also be issued payable in full on application, or in stated instalments as and when required by the company.

The entries are very similar to those for shares, except for the discount, which is illegal in the case of shares, unless authorized by resolution passed in general meeting and sanctioned by the Court, but quite legal and customary in the case of debentures.

Worked Example of Debentures at Par

A joint stock company issued at par £10,000 Debentures in bonds of £100 each, which were all subscribed and fully paid up. It is desired to show the entries in the books necessitated thereby.

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19..							
Jan. 15	Debenture Holders	10,000	–	–			
	To Debentures				10,000	–	–
	100 Bonds of £100 each.						

Dr. CASH BOOK

Date	Receipts	Bank £	s.	d
19.. Jan. 15	To Debenture Holders	10,000	–	–

LEDGER

Dr. DEBENTURE HOLDERS *Cr.*

		£	s	d.			£	s	d
19.. Jan. 15	To Debentures . . .	10,000	–	–	19.. Jan. 15	By Cash . . .	10,000	–	–

Dr. DEBENTURES *Cr*

							£	s	d.
					19.. Jan. 15	By Debenture Holders . .	10,000	–	–

BALANCE SHEET

Capital and Liabilities	£	s	d	*Property and Assets*	£	s	d
Debentures— 100 Bonds of £100 each . . .	10,000	–	–	Cash at Bank	10,000	–	–

Worked Example of Debentures at a Premium

A joint stock company issued at a premium of 5 per cent £10,000 Debentures in bonds of £100 each, payable 30 per cent on application, including the premium, and 75 per cent on allotment. The debentures were fully subscribed and all the money duly received. It is desired to make the necessary entries in the company's books.

JOURNAL *Dr.* *Cr*

		Dr. £	s.	d.	Cr. £	s	d.
19.. Jan 15	Application Account (Debentures)	3,000	–	–			
	To Debentures				2,500	–	–
	£25 per Bond on 100 Bonds						
	To Debenture Premium				500	–	–
	£5 per Bond on 100 Bonds						
25	Allotment Account (Debentures)	7,500	–	–			
	To Debentures				7,500	–	–
	£75 per Bond on 100 Bonds						

Dr. CASH BOOK

Date	Receipts	Bank £	s.	d.
19.. Jan. 15	To Application Account (Debentures)	3,000	–	–
30	,, Allotment Account (Debentures)	7,500	–	–
	£	10,500	–	–

LEDGER

Dr APPLICATION ACCOUNT (DEBENTURES) *Cr.*

		£	s	d.			£	s	d
19.. Jan. 15	To Debentures	2,500	–	–	19.. Jan. 15	By Cash	3,000	–	–
	,, Debenture Premium	500	–	–					
		£3,000	–	–			£3,000	–	–

Dr. ALLOTMENT ACCOUNT (DEBENTURES) *Cr*

		£	s.	d.			£	s.	d.
19.. Jan. 25	To Debentures	7,500	–	–	19.. Jan. 30	By Cash	7,500	–	–

Dr. DEBENTURES *Cr.*

							£	s.	d.
					19.. Jan. 15	By Application Account	2,500	–	–
					25	,, Allotment Account	7,500	–	–
						£	10,000	–	–

Dr. DEBENTURE PREMIUM *Cr.*

							£	s.	d.
					19.. Jan. 15	By Application Account	500	–	–

BALANCE SHEET

Capital and Liabilities	£	s.	d.	*Property and Assets*	£	s.	d.
Debentures—							
100 Bonds of £100 each	10,000	–	–	Cash at Bank	10,500	–	–
Debenture Premium	500	–	–				
£	10,500	–	–	£	10,500	–	–

Worked Example of Debentures at a Discount

A Joint Stock Company issued at a discount of 5 per cent £10,000 Debentures in bonds of £100 each, payable 25 per cent on application, and the balance on allotment. It is desired to make the necessary entries in the company's books.

JOURNAL

Date		Dr. £	s.	d.	Cr. £	s.	d.
19.. Jan. 15	Debenture Discount Account	500	–	–			
	To Debentures Account				500	–	–
	Issue of 100 Bonds at a discount of £5 per Bond.						
15	Application Account (Debentures)	2,500	–	–			
	To Debentures Account				2,500	–	–
	£25 per Bond on 100 Bonds.						
25	Allotment Account (Debentures)	7,000	–	–			
	To Debentures Account				7,000	–	–
	£70 per Bond on 100 Bonds.						

Dr. CASH BOOK

Date	Receipts	Bank £	s.	d.
19 . Jan. 15	To Application Account (Debentures)	2,500	–	–
30	,, Allotment Account (Debentures)	7,000	–	–
		£9,500	–	–

Dr. APPLICATION ACCOUNT (DEBENTURES) *Cr.*

Date		£	s.	d.	Date		£	s.	d.
19.. Jan. 15	To Debentures . . .	2,500	–	–	19.. Jan. 15	By Cash	2,500	–	–

Dr. ALLOTMENT ACCOUNT (DEBENTURES) *Cr.*

Date		£	s.	d.	Date		£	s.	d.
19.. Jan. 25	To Debentures . . .	7,000	–	–	19.. Jan. 30	By Cash	7,000	–	–

Dr. DEBENTURE DISCOUNT ACCOUNT *Cr.*

Date		£	s.	d.	Date		£	s.	d.
19.. Jan. 15	To Debentures . . .	500	–	–					

Dr. DEBENTURES ACCOUNT *Cr.*

		£	s.	d.				£	s.	d.
					19..					
					Jan. 15	By Debenture Discount .	.	500	–	–
					15	,, Application Account	.	2,500	–	–
					30	,, Allotment Account .	.	7,000	–	–
							£	10,000	–	–

BALANCE SHEET

Capital and Liabilities	£	s.	d.	*Property and Assets*	£	s.	d.
Debentures—				Cash at Bank	9,500	–	–
100 Bonds of £100 each	10,000	–	–	Debenture Discount	500	–	–
£	10,000	–	–	£	10,000	–	–

Debenture Interest

Debenture Interest is the interest payable each half year on the money borrowed by the company by means of debentures. Income tax at the full standard rate (now 4s. in £) must be deducted before paying the interest. As regards the books of account, an entry is made in the Journal, crediting the debenture holders, and a corresponding entry in the Cash Book debiting them, as follows—

JOURNAL *Dr.* *Cr.*

		£	s	d	£	s.	d.
19..							
July 1	Debenture Interest	900	–	–			
	To Debenture Holders				720	–	–
	,, Income Tax Account				180	–	–
	Half Year's Debenture Interest less tax at 4s. in the £.						

CASH BOOK *Cr.*

Date	Payments	Bank		
19..				
July 1	By Debenture Holders	720	–	–

The Debenture Interest Account is closed at balancing time by transfer to Profit and Loss Account. The cheque for £720 would be put to the credit of a Debenture Holders Account at the Bank, and a separate pass book kept. Debenture Interest cheques would then be drawn on this account and sent to each debenture holder; and when these were all cashed the account would be closed. The details of the gross and net amount due to each debenture holder would appear in a specially ruled memorandum book, as shown on page 564.

DEBENTURE INTEREST BOOK

Deb Led. fol.	Name	Amount of Debentures held			Half-Year's Interest at 6%			Amount of Tax at 4s.			Net Interest			Remarks
		£	s.	d.	£	s	d	£	s.	d.	£	s.	d.	

Register of Debenture Holders

When debentures are being issued it will, of course, be necessary, in addition to keeping a record of the total amount borrowed, to keep a record of the amounts owing to each creditor. This is done in the Register of Debenture Holders.

This book is ruled in tabular form similar to the Register of Shareholders, and records the names, addresses, and occupations of the debenture holders, the number of debentures held, their distinguishing numbers, and the amount paid up on each debenture. If the debentures are fully paid up, then only a statistical record will be necessary; but if the debentures are payable by instalments, a Cash Account will also be required.

By the Companies Acts, the register must be open for two hours daily to the inspection of any registered debenture holder.

A specimen ruling appears on page 525.

Redemption of Debentures

As debentures are moneys borrowed by limited companies for a certain number of years, they have, of course, to be repaid at the end of the stipulated period. This may be done in the following ways: (1) Out of Profits, (2) Out of Capital, (3) By means of a Sinking Fund.

Worked Example 1—Out of Profits

A Limited Company has a balance of £7,350 standing to the credit of its Profit and Loss Account, and decides to use this amount to pay off its £7,000 Debentures, now redeemable at a premium of 5 per cent. It is desired to make the necessary entries in the company's books.

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19..							
Jan. 20	Profit and Loss Account	7,350	–	–			
	To Appropriation Account				7,350	–	–
	Transfer of balance.						
20	Appropriation Account	350	–	–			
	To Premium on Repayment of Debentures				350	–	–
	Premium on repayment now provided.						
20	Debentures Account	7,000	–	–			
	Premium on Repayment of Debentures	350	–	–			
	To Debenture Holders Account				7,350	–	–
	Transfer of balances.						

JOURNAL—*Contd.*

		Dr. £	s.	d.	Cr. £	s.	d.
Jan. 20	Appropriation Account	7,000	–	–			
	To Capital Reserve Account				7,000	–	–
	Transfer of amount of profits equal to amount of Debentures repaid						

CASH BOOK *Cr.*

Date	Payments	Bank £	s.	d.
19.. Jan. 20	By Debenture Holders Account	7,350	–	–

Worked Example 2—Out of Profits

A Limited Company has power by its Articles of Association to apply its profits to the purchase of its Debenture Stock in the open market and to cancel it. The amount at the credit of Profit and Loss Account is £7,000, and at the credit of Debenture Stock Account, £30,000. The directors decide to expend £7,000 of the bank balance of £15,000 in purchasing and cancelling further Debenture Stock, the market price of which, including charges, is 93 per cent. It is desired to make the necessary entries in the company's books.

Dr. CASH BOOK *Cr.*

	Receipts	£	s.	d.		*Payments*	£	s.	d.
19.. Jan. 20	To Balance	15,000	–	–	19.. Jan. 20	By Debenture Stock £7,526 17s. 8d. at 93% .	7,000	–	–

Dr. DEBENTURE STOCK ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19.. Jan. 20	To Cash— £7,526 17s. 8d. Stock at 93%	7,000	–	–	19.. Jan. 20	By Balance	30,000	–	–
	,, Transfer to Capital Reserve Account (profit on purchase)	526	17	8					
	,, Balance c/d . . .	22,473	2	4					
	£	30,000	–	–		£	30,000	–	–
					Jan. 20	By Balance b/d . . .	22,473	2	4

Dr. APPROPRIATION OF PROFIT ACCOUNT Cr.

		£	s	d.			£	s	d
19.. Jan. 20	To Transfer to Capital Reserve Account . . .	7,000	–	–	19.. Jan. 20	By Profit and Loss Account .	7,000	–	–

Dr. CAPITAL RESERVE ACCOUNT Cr

		£	s	d			£	s.	d
					19.. Jan. 20	By Appropriation . . .	7,000	–	–
					20	,, Deb. Stock Account . .	526	17	8
							£7,526	17	8

The Cash, having been used to pay off the Debenture Stock, is no longer available to pay out profits by way of dividend; the profits are, therefore, capitalized, that is, transferred to a Capital Reserve Account.

Worked Example 3—Out of Capital

A Limited Company issued £20,000 Debentures at a discount of 5 per cent, repayable *at par* by annual drawings of £2,500. It is desired to show the entries in the company's books for the first year.

Dr. CASH BOOK Cr.

		£	s	d			£	s	d
					19.. Year 1	By Debentures Redeemed Account . . .	2,500	–	–

LEDGER

Dr. DEBENTURES REDEEMED ACCOUNT Cr

		£	s.	d.			£	s.	d
19.. Year 1	To Cash	2,500	–	–	19.. Year 1	By Transfer to Debentures Account . . .	2,500	–	–

DEBENTURES ACCOUNT

Dr.		£	s	d	Cr.		£	s.	d.
19.. Year 1	To Transfer from Debentures Redeemed Account	2,500	–	–	19.. Year 1	By Cash	19,000	–	–
	To Balance c/d	17,500	–	–		,, Discount	1,000	–	–
	£	20,000	–	–		£	20,000	–	–
					2	By Balance b/d	17,500	–	–

Worked Example 4—By Means of a Sinking Fund

A Limited Company borrowed £8,000 Debentures at a discount of 5 per cent, repayable *at par* at the end of ten years. It decides to provide for redemption by means of a Sinking Fund at 5 per cent compound interest. It is desired to make the necessary entries in the books of the company—

JOURNAL

		Dr. £	s	d	Cr. £	s	d.
Year 1	Appropriation of Profit Account	636	–	8			
	To Debenture Redemption Fund Account				636	–	8
	Annual Sinking Fund Instalment.						

—and so on for subsequent years.

The above amount is arrived at by reference to the Table on page 281, which shows that the amount to be set aside yearly at 5 per cent compound interest in order to provide £1 in 10 years is £·079504. The amount required to provide £8,000 will, therefore, be £·079504 × 8000, which gives us £636·032, or £636 0s. 8d.

CASH BOOK

Dr.	*Receipts*	£	s.	d	Cr.	*Payments*	£	s	d.
Year 1	To Debenture Redemption Fund Account (Interest on Investments), etc.	31	16	–	Year 1	By Debenture Redemption Fund Investment Account (Instalment)	636	–	8
					2	By Debenture Redemption Fund Investment Account (Instalment plus previous years Interest)	667	16	8

LEDGER

DEBENTURES ACCOUNT

Dr.		£	s.	d.	Cr.		£	s.	d.
Year 10	To Cash (Paid)	8,000	–	–	Year 1	By Cash (Received)	7,600	–	–
						,, Discount	400	–	–
		£8,000	–	–			£8,000	–	–

Dr DEBENTURE REDEMPTION FUND ACCOUNT Cr.

Year		£	s.	d.	Year		£	s.	d.
1	To Balance c/d	636	–	8	1	By Profit and Loss Appropriation Account	636	–	8
2	To Balance c/d	1,303	17	4	2	By Balance b/d	636	–	8
						,, Cash (Interest)	31	16	–
						,, Profit and Loss Appropriation Account	636	–	8
		£1,303	17	4			£1,303	17	4
3	To Balance c/d	2,005	1	10	3	By Balance b/d	1,303	17	4
						,, Cash (Interest)	65	3	10
						,, Profit and Loss Appropriation Account	636	–	8
		£2,005	1	10			£2,005	1	10
4	To Balance c/d	2,741	7	7	4	By Balance b/d	2,005	1	10
						,, Cash (Interest)	100	5	1
						,, Profit and Loss Appropriation Account	636	–	8
		£2,741	7	7			£2,741	7	7
5	To Balance c/d	3,514	9	7	5	By Balance b/d	2,741	7	7
						,, Cash (Interest)	137	1	4
						,, Profit and Loss Appropriation Account	636	–	8
		£3,514	9	7			£3,514	9	7
6	To Balance c/d	4,326	4	9	6	By Balance b/d	3,514	9	7
						,, Cash (Interest)	175	14	6
						,, Profit and Loss Appropriation Account	636	–	8
		£4,326	4	9			£4,326	4	9
7	To Balance c/d	5,178	11	8	7	By Balance b/d	4,326	4	9
						,, Cash (Interest)	216	6	3
						,, Profit and Loss Appropriation Account	636	–	8
		£5,178	11	8			£5,178	11	8
8	To Balance c/d	6,073	10	11	8	By Balance b/d	5,178	11	8
						,, Cash (Interest)	258	18	7
						,, Profit and Loss Appropriation Account	636	–	8
		£6,073	10	11			£6,073	10	11
9	To Balance c/d	7,013	5	1	9	By Balance b/d	6,073	10	11
						,, Cash (Interest)	303	13	6
						,, Profit and Loss Appropriation Account	636	–	8
		£7,013	5	1			£7,013	5	1
10	To Transfer to Capital Reserve Account	8,000	–	–	10	By Balance b/d	7,013	5	1
						,, Cash (Interest)	350	13	3
						Profit and Loss Appropriation Account	636	1	8
		£8,000	–	–			£8,000	–	–

Owing to fractions of a penny having been neglected, there is a difference of 1s. to adjust in the last instalment.

As the Debentures are paid off out of the Cash, the accumulated profits are transferred to a Capital Reserve Account.

Dr DEBENTURE REDEMPTION FUND INVESTMENT ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash	636	–	8	1	By Balance c/d	636	–	8
2	To Balance b/d	636	–	8	2	By Balance c/d	1,303	17	4
	,, Cash (Instalment and Interest)	667	16	8					
		£1,303	17	4			£1,303	17	4
3	To Balance b/d	1,303	17	4	3	By Balance c/d	2,005	1	10
	,, Cash	701	4	6					
		£2,005	1	10			£2,005	1	10
4	To Balance b/d	2,005	1	10	4	By Balance c/d	2,741	7	7
	,, Cash	736	5	9					
		£2,741	7	7			£2,741	7	7
5	To Balance b/d	2,741	7	7	5	By Balance c/d	3,514	9	7
	,, Cash	773	2	–					
		£3,514	9	7			£3,514	9	7
6	To Balance b/d	3,514	9	7	6	By Balance c/d	4,326	4	9
	,, Cash	811	15	2					
		£4,326	4	9			£4,326	4	9
7	To Balance b/d	4,326	4	9	7	By Balance c/d	5,178	11	8
	,, Cash	852	6	11					
		£5,178	11	8			£5,178	11	8
8	To Balance b/d	5,178	11	8	8	By Balance c/d	6,073	10	11
	,, Cash	894	19	3					
		£6,073	10	11			£6,073	10	11
9	To Balance b/d	6,073	10	11	9	By Balance c/d	7,013	5	1
	,, Cash	939	14	2					
		£7,013	5	1			£7,013	5	1
10	To Balance b/d	7,013	5	1	10	By Cash	8,000	–	–
	,, Cash	986	14	11					
		£8,000	–	–			£8,000	–	–

The Cash for the last year would not be invested, but would be transferred to the Investment Account, so that the full money should be in hand with which to pay off the Debentures.

In practice, the interest on the Investments would be received *less* tax, and a further sum would have to be taken out of profits each year to make good this deficiency.

If, on realization, the Investments do not produce their book value, the deficiency must be made good out of profits.

Reduction of Capital

Occasionally a Limited Company may regard it as desirable to reduce its capital. There are two chief reasons when this action is taken: (1) To facilitate Stock Exchange transactions in the shares; and (2) To enable the assets to be written down to their real value and to wipe out any adverse balance in Profit and Loss Account.

As regards the effect upon profits and division of profits the change is nil as far as the actual sum received by the shareholders, provided, of course, all shares are treated with equal justice.

The shareholder who has been receiving $2\frac{1}{2}$ per cent on his £100 worth of shares, receives no more if those shares are written down to £50 and he is paid 5 per cent on them.

But, for stock and share transactions, the memory of the investor being rarely very good, there would be a great deal of difference between 5 per cent which might rise to $7\frac{1}{2}$ per cent and $2\frac{1}{2}$ per cent which might rise to $3\frac{3}{4}$ per cent.

A firm dependent upon public money, even though it may have had a few years that involved it in heavy loss, usually likes to keep its capital at an interest value, that encourages transactions and causes constant quotations in the financial columns of the press.

During the years of the slump that followed the war many large companies were forced to write down their capital, as they realized that should the time come for further developments and new requests to the public for money, the prospect of obtaining it might be hopeless were the percentage of dividend on existing capital too low. The internal reason for writing down capital is very often the altered psychological effect it has upon a business.

Even where there is no need to write down the value of the assets there is more encouragement in the eye constantly meeting the Credit Balance "Reserve Account £3,000" than the "Debit Balance of Profit and Loss Account £47,000."

To realize one has only £153,000 on the Credit side of the Balance Sheet is not as depressing as to see that the £200,000 total includes a debit balance of £47,000.

Before the capital of a company can be reduced, the Articles of Association must be consulted to see whether power has been taken to provide for such an emergency. If such power has been taken—and most Articles contain clauses to this end—a scheme can be prepared, and if approved by the directors, may be submitted to the shareholders. After the shareholders have approved the scheme, the sanction of the Court must be obtained.

Reduction of Capital

Sects. 46 and 47 of the Companies Consolidation Act, 1908, provide as follows—

"Subject to confirmation by the court, a company limited by shares, if so authorized by its articles, may by special resolution reduce its share capital in any way, and in particular (without prejudice to the generality of the foregoing power) may—

(*a*) Extinguish or reduce the liability on any of its shares in respect of share capital not paid up; or

(*b*) Either with or without extinguishing or reducing liability on any of its shares, cancel any paid-up share capital which is lost or unrepresented by available assets; or

(*c*) Either with or without extinguishing or reducing liability on any of its shares, pay off any paid-up share capital which is in excess of the wants of the company,

and may, if and so far as is necessary, alter its memorandum by reducing the amount of its share capital and of its shares accordingly.

Where a company has passed and confirmed a resolution for reducing share capital it may apply by petition to the Court for an order confirming the reduction."

"And Reduced" to be Added to Name of Company

The Companies Acts enact as follows—

"Where the Court makes an order confirming a reduction of share capital it may for any special reason direct that the company shall add to its name, until such date as the Court may fix, the words 'and reduced,' as the last words in its name, and those words shall, until that date, be deemed to be part of the name of the company."

Worked Example 1—Writing Off Losses

A Limited Company, having sustained heavy losses, obtained the sanction of the Court to reduce its Capital of £100,000 in shares of £1 each to 100,000 shares of 10s. each. It is desired to make the necessary Journal entry in the books of the company.

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19.. Feb. 15	Share Capital Account	50,000	–	–			
	To Profit and Loss Account				50,000	–	–
	Reduction of 100,000 Shares of £1 each to 10s. per share paid, as per Order of the Court dated						

In the Share Ledger, each page will be impressed with a rubber stamp referring to the order of the Court. The Share Certificates will be either treated in a similar manner, or else replaced by new ones.

Worked Example 2—Extinguishing Losses and Writing Down Assets

The following is the Balance Sheet of the Kappel Company, Ltd., as at 30th June, 19..—

Capital and Liabilities	£	*Property and Assets*	£
Nominal and Issued Capital—		Freehold Land and Buildings	27,000
100,000 Ordinary Shares of £1 each fully paid	100,000	Machinery and Plant	56,000
		Patents	68,000
100,000 Preference Shares of £1 each fully paid	100,000	Stock	10,000
		Sundry Debtors	12,000
Bank Overdraft	5,160	Preliminary Expenses	6,000
Sundry Creditors	11,000	Cash in hand	160
		Profit and Loss Account— Debit balance	37,000
	£216,160		£216,160

Resolutions were passed—

1. That the £1 Ordinary and Preference Shares be reduced to the same number of fully-paid shares of 10s. each.

2. That the sum thus rendered available be applied as follows: (*a*) In writing off the balance of the Profit and Loss and Preliminary Expenses Accounts; (*b*) In reducing the plant and machinery to £40,000; the patents to £30,000; the land and buildings to £25,000; and the stock to £9,000. The sanction of the Court was duly obtained.

It is desired to make the necessary entries in the company's books, and to show the new Balance Sheet.

Alteration and Reorganization of Share Capital

After a company has been in existence for a time it may happen that some alteration to the share capital becomes necessary. This may be due to bad trading, involving a reduction of the value of the shares, which has already been dealt with; or the purchase of additional property necessitating an increase in the amount of the nominal capital and the issue of further shares. Sometimes, however, a company is so successful that the value of each share, as represented by the Stock Exchange quotation, becomes out of all proportion to the nominal value. Alongside this state of affairs there probably exists a large Reserve Account, and the company, in order to further the marketability of the shares and also to capitalize the Reserve Account, will make an issue to its shareholders of fully-paid bonus shares, with the consequent reduction in the market value of each share. In other cases, a company may find that it can earn very satisfactory profits with only a small proportion of issued capital as compared with the nominal capital. The company may, although it is unusual, decide to cancel the shares which have not been issued. According to the Companies Acts " A company

JOURNAL

Date		Dr. £	s.	d.	Cr. £	s.	d.
19.. Sept 20	Ordinary Share Capital Account	50,000	–	–			
	To Capital Reduction Account				50,000	–	–
	100,000 Shares of £1 each, fully paid, reduced to 100,000 Shares of 10s. each, fully paid, by order of the Court, dated ..... Sept., 19..						
20	Preference Share Capital Account	50,000	–	–			
	To Capital Reduction Account				50,000	–	–
	100,000 Shares of £1 each, fully paid, reduced to 100,000 Shares of 10s. each, fully paid, as per order of the Court, dated ...... Sept., 19..						
20	Capital Reduction Account	100,000	–	–			
	To Land and Buildings				2,000	–	–
	,, Machinery and Plant				16,000	–	–
	,, Patents				38,000	–	–
	,, Stock				1,000	–	–
	,, Preliminary Expenses				6,000	–	–
	,, Profit and Loss Account				37,000	–	–
	Amounts written off as per resolution dated.						

LEDGER

CAPITAL REDUCTION ACCOUNT

Dr.		£	s.	d.	Cr.		£	s	d.
19.. Sept. 20	To Land and Buildings	2,000		–	19.. Sept. 20	By Ordinary Share Capital	50,000	–	–
	,, Machinery and Plant	16,000	–	–		,, Preference Share Capital	50,000	–	–
	,, Patents	38,000	–	–					
	,, Stock	1,000	–	–					
	,, Preliminary Expenses	6,000	–	–					
	,, Profit and Loss	37,000	–	–					
		£100,000	–	–			£100,000	–	–

THE KAPPEL COMPANY, LIMITED AND REDUCED

BALANCE SHEET

Capital and Liabilities	£	s	d.	*Property and Assets*	£	s.	d.
Nominal and Issued Capital—				Freehold Land and Buildings	25,000	–	–
100,000 Ordinary Shares of 10s. each, fully paid	50,000	–	–	Machinery and Plant	40,000	–	–
100,000 Preference Shares of 10s. each, fully paid	50,000	–	–	Patents	30,000	–	–
Bank Overdraft	5,160	–	–	Stock	9,000	–	–
Sundry Creditors	11,000	–	–	Sundry Debtors	12,000	–	–
				Cash in hand	160	–	–
	£116,160	–	–		£116,160	–	–

limited by shares, if so authorized by its Articles, may alter the conditions of its memorandum, that is to say it may—

(*a*) Increase its share capital by the issue of new shares of such amount as it thinks expedient;

(*b*) Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;

(*c*) Convert all or any of its paid-up shares into stock, and reconvert that stock into paid-up shares of any denomination;

(*d*) By special resolution, subdivide its shares or any of them, into shares of smaller amount than is fixed by the Memorandum, so, however, that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived.

(*e*) Cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled."

At the time of writing every copy of the Memorandum issued subsequently must be in accordance with the alteration. Notice of any such increase, consolidation, division, conversion, or reconversion must be given to the registrar of companies.

A company limited by shares may, by special resolution confirmed by an order of the Court, modify the conditions contained in its Memorandum so as to reorganize its share capital, whether by the consolidation of shares of different classes or by the division of its shares into shares of different classes. An office copy of any such order must be filed with the registrar of companies before the resolution can take effect.

Worked Example 1—Conversion into Stock

A Limited Company decides by special resolution to convert its 7 per cent Preference Share Capital of £100,000 into 7 per cent Preference Stock. It is desired to show the Journal entry necessary to effect this change.

(*a*) At par—

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19..							
Sept. 15	7% Preference Share Capital Account	100,000	–	–			
	To 7% Preference Stock Account				100,000	–	–
	Conversion of 100,000 7% Preference Shares of £1 each, fully paid, into 7% Preference Stock, as per special resolution dated						

(*b*) At a premium of 3 per cent—

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19..							
Sept. 15	7% Preference Share Capital Account	100,000	–	–			
	To 7% Preference Stock Account				97,000	–	–
	,, Preference Stock Premium Account				3,000	–	–
	Conversion of Preference Share Capital into Stock at the rate of £97 of Stock for every £100 of Shares, as per special resolution dated						

(*c*) At a discount of 2 per cent—

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19..							
Sept. 15	7% Preference Share Capital Account	100,000	–	–			
	Preference Stock Discount Account	2,000	–	–			
	To 7% Preference Stock Account				102,000	–	–
	Conversion of Preference Share Capital into Stock at the rate of £102 of Stock for every £100 of Shares, as per special resolution dated						

Worked Example 2—" Splitting " or Subdividing Shares

A Limited Company decides by special resolution to subdivide its 20,000 Preference Shares of £5 each into an equivalent number of shares of £1 each. It is desired to make the necessary Journal entry to effect this change.

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19.. Sept. 15	Preference Share Capital (£5 Shares)	100,000	–	–			
	To Preference Share Capital (£1 Shares)				100,000	–	–
	Conversion of 20,000 Preference Shares of £5 each into 100,000 Preference Shares of £1 each, as per special resolution dated						

Worked Example 3—Debentures Exchanged for Shares

A Limited Company issued £8,000 Debentures which, at the end of the period, are exchangeable for Shares in the company. The Debentures were issued at a discount of 5 per cent. It is desired to show the Journal entry required for the exchange, assuming the holders exercise their option and ask for Shares.

JOURNAL

		Dr £	s.	d.	Cr. £	s.	d
19.. Sept. 15	Debenture Account	8,000	–	–			
	To Share Capital Account				7,600	–	–
	,, Share Conversion Premium Account				400	–	–
	Conversion of £8,000 Debentures into Share Capital at a premium of 5 per cent.						

Although debentures may be issued at a discount, shares cannot, unless sanctioned by the Court. Shares can only be issued, therefore, to the amount of cash actually paid for the debentures.

Reserve Liability

A limited company may, by special resolution, determine that any portion of its Share Capital which has not been already called up shall not be capable of being called up, except in the event and for the purposes of the company being wound up. The motive for this is to improve the financial standing of the company by having large capital reserves. It is a customary practice with joint stock banks.

Secret Reserves

A Secret Reserve is a surplus which is not disclosed on the Balance Sheet.

Secret Reserves are made by excessive depreciation of assets, such as writing down premises, investments, and other assets, much below their real value; and also by omission of assets altogether, as the Bank of England, which omits from its Balance Sheet the value of its premises; and as in the case of some large commercial companies, which omit from the Balance Sheet the value of their Goodwill. Secret Reserves are also made by creating excessive reserves for bad debts, and by charging capital expenditure to revenue, as in the case of charging additions to buildings to the Profit and Loss Account instead of to the Buildings Account.

The advantages of Secret Reserves are that they promote financial stability, enable a normal rate of dividend to be maintained, and promote the interests of the undertaking. These advantages arise from the fact that extraordinary losses can be met out of these secret surpluses, and thus prevent the rate of dividend being reduced, or the confidence of the public being shaken. Likewise, huge profits can also be concealed from business rivals.

The objections raised to Secret Reserves are that the shareholders have not the full facts placed before them; that they may, in unscrupulous hands, be used to conceal losses caused by reckless speculation or by bad management.

Further, it is urged that concealment of facts and manipulation of figures are both bad in principle.

In the case of banks, where public confidence is of vital importance, Secret Reserves may be tolerated or even recommended; but in the case of many institutions, where public confidence is not a very important factor, the practice of Secret Reserves is open to strong criticism.

Reserve Funds

A Reserve Fund is composed of profits which have been put by from time to time and allowed to accumulate, the object being to increase the financial stability of the concern. In many cases, the Reserve Fund remains in the business, being represented by an undivided portion of the general assets; but, in some cases, the Reserve Fund is represented by an outside investment, gilt-edged securities having been bought with cash. When the Reserve Fund is not represented by a separate investment of cash, some accountants think the term "Reserve Account" is more appropriate.

Whether a Reserve Fund should be represented by a separate investment or not depends upon the financial circumstances of the business. The object of the outside investment is to make the fund immediately available if and when required.

If the business has plenty of spare cash, an outside investment might be desirable; but to lock up available cash in securities like Consols, and then be obliged to borrow money at a high rate of interest in order to carry on the business, would be very foolish finance. Keeping a sufficient balance at the bank in order to be able to take advantage of cash discounts on purchases would yield a much better return than interest on Consols.

Sinking Funds

A Sinking Fund is either (1) an accumulation of appropriations of profit in order to pay off a liability, as in the case of a Debenture Sinking Fund, and similar cases; or (2) an accumulation of charges against profit with the object of providing for the replacement of a wasting asset, as in the case of a Sinking Fund to replace machinery and plant, lease, and other assets. In each case, however, there is an equivalent amount of *Cash* invested outside the business, so that, by realizing the investments, the fund shall be immediately available when required. An example of a Sinking Fund to repay Debentures has already been given in the present chapter, on page 567. A Sinking Fund to replace a wasting asset follows the same course.

There are, however, two important differences between a Sinking Fund to replace a wasting asset and a Sinking Fund to repay a liability. In the former case, the accumulated profits are transferred to the Asset Account in order to close it; in the latter case, the accumulated profits are transferred to a Capital Reserve Account. At the end of the period the Asset is thus depreciated in its entirety, since the accumulated profits close the Asset Account.

The Sinking Fund annual instalment is then, in the case of a wasting asset, a charge against profits equivalent to the annual depreciation, and must, therefore, be debited to the *Profit and Loss Account.* On the other hand, the Debentures are not repaid with profits but with *cash* on account of these profits. The accumulated profits, therefore, remain at the end of the period, and must be transferred to a Capital Reserve Account. The annual Sinking Fund instalment is then, in the case of a liability, an appropriation of profits, and must, therefore, be charged to the *Appropriation Account.*

Bonus Shares

When a Company has accumulated large reserves out of profits, these reserves, or at least a portion of them, are often capitalized by the issue of free or bonus shares, in order that the shareholders may derive some benefit from such reserves. Such shares are generally issued at a premium, as the company might find itself unable to pay dividends on a largely augmented capital, unless profits continued to increase largely. If issued at par, the whole amount would be added to the Capital. Where the Capital of the company is only partly called, the bonus is often applied to making the shares fully paid.

Worked Example 1—Bonus Shares Issued at a Premium

A company with a paid-up Capital of £200,000 in shares of £1 each resolves to distribute a bonus, equal to 20 per cent of this Capital, out of the Reserve Fund of £60,000. The market value of the shares is £2, and it is decided to issue the shares at a premium of £1 per share, at the rate of 1 fully-paid share for every 10 shares held in the company. It is desired to make the necessary entries in the company's books.

JOURNAL

		Dr £	s.	d	Cr. £	s.	d
19.. Mar. 20	Reserve Fund Account	40,000	–	–			
	To Bonus Account				40,000	–	–
	Bonus of 20 per cent on 200,000 shares of £1 each, payable in fully-paid shares as per Resolution dated						
20	Bonus Account	40,000	–	–			
	To Share Capital Account				20,000	–	–
	,, Share Premium Account				20,000	–	–
	Issue of 20,000 Shares of £1 each, fully paid, at a premium of £1 per share, at the rate of 1 Bonus Share for every 10 Shares held in the Company						

LEDGER

RESERVE FUND ACCOUNT

Dr.		£	s	d					Cr
19.. Mar. 20	To Bonus Account	40,000	–	–					

BONUS ACCOUNT

Dr.		£	s	d			£	s	d. Cr
19.. Mar. 20	To Share Capital Account	20,000	–	–	19. Mar. 20	By Reserve Fund Account	40,000	–	–
	,, Share Premium Account	20,000	–	–					
	£	40,000	–	–		£	40,000	–	–

SHARE CAPITAL ACCOUNT

Dr							£	s.	d. Cr.
					19..	By Balance b/d			
					Mar. 20	,, Bonus Account	20,000	–	–

SHARE PREMIUM ACCOUNT

Dr.							£	s.	d. Cr.
					19.. Mar. 20	By Bonus Account	20,000	–	–

Worked Example 2—Bonus Applied to Making Shares Fully Paid

A Limited Company with an issued Capital of £120,000 in shares of £1 each, 15s. per share paid, declares a bonus out of the Reserve Fund, at the rate of 33⅓ per cent on the paid-up Capital, with the object of making the shares fully paid. It is desired to make the necessary entries in the company's books.

JOURNAL

Date		Dr. £	s	d	Cr. £	s	d
19 . Mar. 20	Final Call Account	30,000	–	–			
	To Share Capital Account				30,000	–	–
	Call of 5s. per share on 120,000 Shares, as per Resolution dated						
20	Reserve Fund Account	30,000	–	–			
	To Bonus Account				30,000	–	–
	Bonus of 33⅓ per cent on £90,000 paid-up Capital, payable out of the Reserve Fund, as per Resolution dated .						
20	Bonus Account	30,000	–	–			
	To Final Call Account				30,000	–	–
	Application of Bonus to payment of the Final Call, as per Resolution dated . .						

Dr FINAL CALL ACCOUNT *Cr.*

Date		£	s.	d.	Date		£	s	d.
19.. Mar 20	To Share Capital Account .	30,000	–	–	19.. Mar 20	By Bonus Account .	30,000	–	–

Dr SHARE CAPITAL ACCOUNT *Cr.*

Date		£	s.	d.	Date		£	s.	d.
					19..	By Balance b/d . .			
					Mar 20	,, Final Call Account .	30,000	–	–

Dr. RESERVE FUND ACCOUNT *Cr.*

Date		£	s.	d.	Date		£	s.	d.
19.. Mar. 20	To Bonus Account . .	30,000	–	–					

Dr. BONUS ACCOUNT *Cr.*

Date		£	s.	d	Date		£	s	d.
19.. Mar. 20	To Final Call Account . .	30,000	–	–	19.. Mar 20	By Reserve Fund Account .	30,000	–	–

Investment Accounts

When money is invested in Reserve Funds or Sinking Funds it is necessary that separate accounts should be kept for the stock or shares in which the money has been invested A certain amount of stock is bought each year or other period, and while it would probably be convenient to purchase the same stock every period, circumstances may dictate otherwise. Therefore, while the Reserve Fund or Sinking Fund may be represented by one Investment Account, they are more likely to be represented by several.

Investment Accounts are usually kept in tabular form, so that the fullest information may be available. Three columns appear on each side of an account, in order that the nominal value of the investment, and the principal or capital value may appear side by side. The other column shows the periodical dividends or interest received. Where dividends are payable at fixed periods, these dates are often stated at the top of the Investment Account.

Occasionally it happens that a portion of a parcel of stock is sold during the period. It will be then necessary to know whether it is sold "cum div." or "ex div.," so that the correct apportionment may be made between Income and Capital.

"Cum div." or "with dividend" means that the dividend accruing should go to the purchaser. "Ex div." or "without dividend" means that the dividend has been declared but not paid When received, it will be retained by the seller, instead of being handed to the purchaser, as would have been the case if the sale had been made "cum div." In the case of a fixed interest bearing stock, the percentage of dividend is known, and the adjustment can be made at the time of the sale, otherwise it must be made when the dividend is received. In the case of a sale "cum div." the dividend must be calculated on the nominal value of the stock sold, from the date when the last dividend was payable to date of sale. This will be placed in the Dividend column, and deducted from the gross amount received, leaving the net amount to be placed in the Capital column. If the stock is sold "ex div." the calculation is made on the nominal value of the stock sold from date of sale to the due date of the dividend, and this amount is deducted and placed in the Capital column.

When the dividend is received the Cash Book is debited and the dividends column of the Investment Account credited At the end of the period the total of this column is transferred to a special Dividends Account, which is afterwards closed to the Profit and Loss Account.

Balancing

At the end of the period the account must be balanced. It is usual to bring down in the dividends column the same amount that stood at the beginning of the period, assuming that there has not been an alteration in the amount of the stock. If a portion of the Stock has been sold or a further purchase made, the amount of dividend accruing at the end of the period on the total amount of stock must be calculated, and inserted on the credit side.

As regards the Capital column it is usual to insert on the credit side, the same amount that appears on the debit; if any of the stock has been sold then usually the remainder is valued at cost price, and any difference between the two sides is transferred to a Profit and Loss on Investments Account. If, however, a company has a large number of investments, it is a common practice for a schedule to be prepared showing the cost price of each investment, and the market price at the end of the financial period Then, supposing the total market values were less than the total cost values, a reserve for depreciation might be made for the difference between the two amounts. On the other hand, no account would be taken of the difference if the total market values exceeded the total cost values, as, although it is a profit, it is not a realized profit.

Worked Example

L. Speedleman holds £6,000 worth of $2\frac{1}{2}$ per cent Consols, which he purchased for £4,759 18s. 6d., including brokerage, stamps, and expenses. It is desired to show the Ledger Account of the investment for one year, dividends being payable on 5th January, 5th April, 5th July, and 5th October. (See page 579.)

The accruing Dividend at the beginning of the year has been taken as $\frac{87}{365}$ths of £120, the yearly dividend, less tax at 4s. in the £. Some accountants take it as $\frac{87}{92}$nds of the quarterly dividend, less tax. It makes no difference, however, to the *yearly* income, as the same amount has to be carried forward again at the end of the year.

Analysis of Balance Sheets

One of the important duties of every person who is likely to touch investments of any kind, is to acquire the habit of balance sheet analysis.

2½ PER CENT CONSOLS

Dr. DIVIDENDS PAYABLE ON 5TH JANUARY, 5TH APRIL, 5TH JULY, AND 5TH OCTOBER *Cr.*

Date	Particulars	Nominal Value £ s d	Dividends or Interest £ s d	Capital or Principal £ s d	Date	Particulars	Nominal Value £ s d	Dividends or Interest £ s d	Capital or Principal £ s d
19.. Jan. 1	To Balance	6,000 – –	28 12 1	4,759 18 6	19.. Jan 5	By Cash— Quarter's Dividend £37 10 *Less* Tax at 4s. in the £7 10		30 – –	
Dec 31	,, Transfer to Dividends and Interest Account		120 – –		Apr. 5	By Cash (ditto)		30 – –	
					July 5	,, Cash (ditto)		30 – –	
					Oct. 5	,, Cash (ditto)		30 – –	
					Dec. 31	,, Balance c/d	6,000 – –	28 12 1	4,759 18 6
		£6,000 – –	148 12 1	4,759 18 6			£6,000 – –	148 12 1	4,759 18 6
19.. Jan 1	To Balance b/d	6,000 – –	28 12 1	4,759 18 6					

Some time ago a man who had no professional knowledge of accounts, happened to come upon the published balance sheet of a then well-known company. A single total caught his eye, and he chanced to remember hearing the amount the firm was annually spending in advertising.

"Impossible!" he said. "No firm in that business can spend so much if those figures are true."

The company was steadily appealing for public money, chiefly from small investors, and the inquirer became uneasy about this activity. With no trading account before him, and only the published Balance Sheet for a year, he sat down, wrote a criticism and took it to a newspaper.

The editorial staff was dubious. The proprietor of the paper was consulted.

"Take the article to my auditors. If they accept the criticism publish it."

The auditors, a famous firm of Chartered Accountants took the Balance Sheet and criticism.

"The objection is entirely sound" they agreed. "It is strange that no one appears to notice the discrepancy. It is a public duty to investigate this matter." The article was published and "answered," and there for a time the matter rested. But some years later came the crash, and great numbers of small investors lost their money. The winding-up report proved the criticism to be precisely true.

Now here were three facts which any qualified accountant and most sane business men could see were more than suspicious, the moment they had their attention called to them.

1. One was that the advertising could not be done under very many thousands a year. This was plain to those who saw the daily papers and noticed the space occupied.

2. The second was that earnings in that particular line are marginal, and can be gauged almost to a fraction of a percentage by those who can see one item the Balance Sheet revealed.

3. The Balance Sheet did reveal that figure—and published it with its fluctuation once or twice a year.

Yet the investors went on investing more; thousands were poured in and ultimately lost.

There was a possibility, of course, and the critic of the Balance Sheet admitted the fact, that the company in question might earn larger profits by undertaking other classes of business. But it was pointed out, that in doing this they would be departing from their rights and from an understood pledge to their creditors and shareholders.

The point of the above is simple.

In spite of the very scanty information that some public companies give in their Balance Sheets, and the still more scanty information in their Trading and Profit and Loss Account, it is possible for the man who can do a little clear thinking and who applies the right kind of tests, to detect anything that is grotesquely and absurdly wrong.

Usually, to be able to do this, is sufficient to protect the investor from the ravages of the worst kind of investment trap.

How to Read a Balance Sheet

Although a private individual or firm is under no obligation to publish a Balance Sheet, or even to prepare one, yet a joint stock company is compelled by the Companies Acts to prepare and publish a Balance Sheet, and to file with

the Registrar of Joint Stock Companies a Statement, in the form of a Balance Sheet, showing how the *fixed* assets have been valued.

The object of it is to enable shareholders and creditors to form an estimate of the financial stability of the company in which they may be interested. The principal Balance Sheets available for reading will, therefore, be the published ones of joint stock companies. Except that Share Capital and Debentures will replace the Capital and Current Accounts of the proprietor or partners, however, the Balance Sheets will, in other respects, be similar to those of sole traders and partnerships, though naturally the figures will assume much larger proportions.

Many joint stock companies are trading firms which have been converted into public companies, because larger capital was required than could be provided by private enterprise. The correct understanding of a joint stock company Balance Sheet will, therefore, be a guide to the correct understanding of Balance Sheets of other commercial undertakings. The particular statutory form of Balance Sheet required by certain special companies, which use the Double Account System, is dealt with in a separate and subsequent chapter.

"Secretive" Balance Sheets

One difficulty that prevents the correct reading of a Balance Sheet is the fact that it is sometimes purposely made "secretive." In such Balance Sheets, assets are lumped together in a way that really defies the extracting of information. The following is a specimen—

BALANCE SHEET

Liabilities	£	s.	d	*Assets*	£	s.	d.
Share Capital—				Freehold and Leasehold Land, Buildings, Goodwill, Plant and Machinery	554,789	10	6
300,000 Ordinary Shares of £1 each	300,000	–	–	Stock-in-Trade, Bills Receivable, Loans, Sundry Debtors, Investments, Cash in hand and at Bank, and Sundry Unexpired payments	375,734	18	10
300,000 7% Preference Shares of £1	300,000	–	–				
6% Mortgage Debentures	100,000	–	–				
Trade and Other Creditors	123,654	18	10				
Reserve Account	20,000	–	–				
Profit and Loss Account	86,869	10	6				
	£930,524	9	4		£930,524	9	4

Such figures are useless to the financial critic. One cannot get even an approximate idea of the value of the assets.

How much of the total of £554,789 do Freehold and Leasehold Land and Buildings comprise? What is the book value of the Goodwill? With regard to the Floating or Circulating Assets, how much of the total of £375,734 is Stock, and how much represents book-debts?

Are the loans for large or small amounts, and are they secured or unsecured; and if secured, what is the security?

How much of the total represents Investments?

What is the nature of the Investments, and how does their book-value compare with their current market value?

As regards the Profit and Loss balance, how much of the amount was brought forward from the previous year? One cannot form a correct idea of the year's trading at all.

Is the Profit and Loss balance *before* or *after* charging Depreciation? Ten per cent on the value of the Fixed Assets comes to £55,478.

Is such Profit and Loss balance *before* or *after* the payment of Debenture Interest and Dividends? The Ordinary Share Dividend (say 10 per cent) would come to £30,000, the Preference Share Dividend to £21,000, and half-a-year's Debenture Interest to £3,000, giving a total of £54,000. Depreciation alone would absorb the greater part of the profit, and leave insufficient for Dividends.

What do the "Other Creditors" comprise?

It is urged, in defence of such Balance Sheets, that publicity of details would benefit only trade rivals. In very few cases, however, are Balance Sheet figures of any real use to trade competitors. What they would like to know is their rivals' cost of production, margin of profit, turnover, percentage of expenses to income—information which should naturally be kept private.

With regard to a well-managed trading concern, a true statement of assets and liabilities, frankly showing the financial position, inspires confidence in shareholders, creditors, and would-be investors. The withholding of details, or the giving of very meagre details, breeds distrust, and is much more likely to injure the company than is a policy of full particulars and frankness.

"Accounting" and "Business" Aspects of Balance Sheets

Another difficulty that meets one is the fact that a Balance Sheet is seldom a clear and detailed statement of mere assets and liabilities. Many items appear on Balance Sheets, under the respective headings of Assets and Liabilities, which are merely debit and credit balances existing in the Ledger, but which have to be stated on the Balance Sheet in order that the totals of the two sides may, in accordance with the rules of double-entry, agree with each other. This is quite correct accounting, but not at all clear to anyone who has but little knowledge about book-keeping.

An outsider is more interested in the "business" aspect of the Balance Sheet than in its "book-keeping" aspect, which he is content to leave to the accountant. He probably has merely a fixed idea that an asset is some form of property which has a market value; and that a liability is a debt which must in due course be paid. When, therefore, he finds in a Balance Sheet numerous other items which, for want of a better term, can only be called "fictitious" assets and liabilities, the correct interpretation of such Balance Sheet certainly baffles him.

In order, then, that a Balance Sheet may be more easily read and understood, the assets and liabilities require to be regrouped, and all intangible and fictitious assets and liabilities grouped separately and shown as such. The "live" matter, so to speak, should be separated from the "dead," thus exhibiting the Balance Sheet in its "business" aspect as opposed to merely its "accounting" aspect.

Let us, by way of example, compare and contrast the two Balance Sheets, given on page 582.

Number 1 is drawn up in true book-keeping style, with the assets and liabilities in the order of permanence. There we have the Balance Sheet in its real "accounting" aspect.

Number 2 exhibits the Balance Sheet in its "business" aspect. The Liabilities to the Shareholders are shown separately from the Liabilities to the Public; they are also separately totalled, and yet, at the same time, the Balance Sheet shows the grand total of all the liabilities.

What will interest creditors, shareholders, and debenture holders most is the fact that the "realizable" assets are shown separately from the other assets or so-called assets. Not only are the realizable assets shown separately, but they are also subdivided into various groups according to their nature. Each group is separately totalled, while at the same time, the combined total of all the groups, the grand total of all the realizable assets, is also shown.

Shareholders, debenture holders, and creditors are concerned about the security for the money due to them; they want to look at "realizable" assets, i.e. the "live" matter of the Balance Sheet. From that they can form a better idea of the financial stability of the company. The "dead" matter of the Balance Sheet concerns the accountant, who must include all his outstanding Ledger balances on his Balance Sheet in order to get the totals of each side to agree.

The drawing up of Balance Sheets in the second style would seem to be desirable. It would involve very little extra work, yet it would afford a much better view of the state of affairs of a company.

Criticism of Balance Sheets

It is quite impossible to be exhaustive, but the following are the principal points to which criticism may be usefully directed—

1. *Form.*

Are the assets grouped in such a way as to afford information?

Are utterly dissimilar assets lumped together for the express purpose of concealing information?

Are the fixed, floating, liquid, and intangible assets carefully separated, or are they at least clearly discernible?

Are the liabilities carefully separated and grouped; or are the fixed, floating, and fictitious liabilities, the reserves and the profits at least clearly discernible?

2. *Fixed Assets.*

Are the Fixed Assets clearly stated?

What values have been put against them; the original cost prices, or their depreciated current values?

Are such assets being properly depreciated, and are they being maintained out of profits in a state of efficiency?

3. *Circulating or Floating Assets.*

Are the Floating or Circulating Assets properly valued?

Is Stock-in-trade merely an estimated amount, or is it the value as per stocktaking sheets, duly

No. 1

BALANCE SHEET AS AT 31ST DECEMBER, 19..

Capital and Liabilities	£	s	d	£	s	d
Nominal Capital—						
250,000 Ordinary Shares of £1 each	250,000	–	–			
150,000 7% Preference Shares of £1 each	150,000	–	–			
	£400,000	–	–			
Issued Capital—						
200,000 Ordinary Shares of £1 each, fully paid	200,000	–	–			
149,500 7% Preference Shares of £1 each, fully paid	149,500	–	–	349,500	–	–
6% Mortgage Debentures				60,000	–	–
Reserve Fund	60,000	–	–			
Added this year	5,000	–	–	65,000	–	–
Debenture Sinking Fund	12,000	–	–			
Added this year	5,000	–	–	17,000	–	–
Forfeited Shares Account, 500 Shares, 10s. paid				250	–	–
Sundry Creditors				15,827	16	10
Bills Payable				2,128	12	9
Unclaimed Dividends				152	14	6
Unexpired Apprentice Premium				125	10	–
Reserve for Audit Fee				300	–	–
Accrued Salaries and Wages				256	10	8
Profit and Loss Account—						
Balance 1st January	2,875	15	10			
Add Profit for year	43,529	12	3			
	46,405	8	1			
Less Transfer to Reserve	5,000	–	–	41,405	8	1
				£551,946	12	10

Property and Assets	£	s.	d	£	s	
Freehold Land and Buildings	236,052	12	11			
Less Depreciation	5,901	6	4	230,151	6	7
Plant and Machinery	145,658	10	7			
Less Depreciation	14,565	17	1	131,092	13	6
Goodwill				35,000	–	–
Loose Tools				4,250	8	10
Furniture and Fixtures	3,875	10	6			
Less Depreciation	387	11	1	3,487	19	5
Stock-in-Trade	32,684	12	6			
Work-in-Progress	6,475	10	8	39,160	3	2
Stock of Stationery, Catalogues, etc				127	16	6
Sundry Debtors	32,625	6	6			
Less Bad Debts Reserve	1,631	5	4			
	30,994	1	2			
Less Discount Reserve	1,549	14	1	29,444	7	1
Bills Receivable				3,876	12	9
Insurance, etc , prepaid				108	16	8
Debenture Sinking Fund Investments				12,086	15	4
Consols £6,000 at 85				5,110	15	6
Cash in hand	210	12	8			
Cash at Bank	57,838	4	10	58,048	17	6
				£551,946	12	10

No. 2

BALANCE SHEET AS AT 31ST DECEMBER, 19..

LIABILITIES	£	s	d.	£	s	d
To Shareholders—						
200,000 Ordinary Shares of £1 each, fully paid	200,000	–	–			
149,500 7% Preference Shares of £1 each, fully paid	149,500	–	–	349,500	–	–
Reserve Fund	60,000	–	–			
Added this year	5,000	–	–	65,000	–	–
Debenture Sinking Fund	12,000	–	–			
Added this year	5,000	–	–	17,000	–	–
Forfeited Shares Account				250	–	–
Unclaimed Dividends				152	14	6
Unexpired Apprentice Premium				125	10	–
Profit and Loss Account—						
Balance 1st January	2,875	15	10			
Add Profit for year	43,529	12	3			
	46,405	8	1			
Less Transfer to Reserve	5,000	–	–	41,405	8	1
Total				473,433	12	7
To the Public—						
6% Mortgage Debentures	60,000	–	–			
Sundry Creditors	15,827	16	10			
Bills Payable	2,128	12	9			
Reserve for Audit Fee	300	–	–			
Accrued Salaries and Wages	256	10	8	78,513	–	3
				£551,946	12	10

ASSETS	£	s	d	£	s.	d.
Fixed Assets—						
Freehold Land and Buildings, *less* Depreciation	230,151	6	7			
Plant and Machinery, *less* Depreciation	131,092	13	6			
Loose Tools as per inventory	4,250	8	10			
Furniture and Fixtures, *less* Depreciation	3,487	19	5	368,982	8	4
Circulating or Floating Assets—						
Stock-in-Trade as per certified inventory	32,684	12	6			
Work-in-Progress, as certified	6,475	10	8			
Sundry Debtors, *less* Reserves for Bad Debts and Discounts	29,444	7	1			
Bills Receivable	3,876	12	9	72,481	3	–
Liquid Assets—						
Consols £6,000 at 85	5,110	15	6			
Cash in hand	210	12	8			
Cash at Bank	57,838	4	10	63,159	13	–
Total				504,623	4	4
Appropriated Assets—						
Debenture Sinking Fund Investments				12,086	15	4
Non-Realizable Assets—						
Goodwill	35,000	–	–			
Stocks of Stationery, Catalogues, etc.	127	16	6			
Insurances, etc , prepaid	108	16	8	35,236	13	2
				£551,946	12	10

certified by the managing director or by some responsible official? Is it valued at cost or market price, and does it include only Stock in good condition actually saleable at current market prices?

Are the Debtors properly stated?

Do the Debtors' balances include any advances to directors, or the debit balances of directors' Current Accounts?

Are the Debtors properly valued? Has proper allowance been made for debts known to be bad, and for possible further bad debts, also for loss by reason of discount?

Has allowance been made for any Bills Receivable expected to be dishonoured?

4. *Liquid Assets.*

Are the Liquid Assets properly stated?

Are the Temporary Investments (surplus Cash put on short deposit or temporarily invested) separated from the Investments representing the Reserve Fund or any other fund, and from the Trade Investments (Shares and Debentures in other companies)?

Is the nature of the Investments disclosed? Are such Investments valued at their cost prices or at their current market values? Are the respective totals of their book value and their current market value clearly stated?

What liability for uncalled capital is there on the Trade Investments? Is the extent of such liability plainly shown?

5. *Intangible and Fictitious Assets.*

Are the Intangible Assets properly stated?

Are the Goodwill, Trade Marks, Patents, separately grouped from the Fixed Assets or merely included with them? Are the values set against them their cost prices or their present depreciated values?

Are the unexpired values of Insurance, Trade Subscriptions, and other prepaid expenses included in the Debtors or grouped separately?

Are such fictitious assets as Preliminary Expenses and Debenture Discount grouped with other items or shown separately?

What proportion of such expenditure has been charged against the current year's profits?

6. *Fixed Liabilities.*

Are the various kinds of Shares, and Debentures, carefully set out, with their fixed rates of dividend and interest?

Are the denominations of the shares, the amounts actually called up and paid up, clearly stated?

7. *Floating Liabilities.*

Are the Floating Liabilities properly stated? Do the creditors' balances include Shareholders' Dividends or Debenture Interest outstanding? If so, such should be shown separately.

Do the Creditors include a Bank Loan or Overdraft? If so, it should be shown separately, and should also state what security has been lodged with the Bank in order to obtain the loan or overdraft, i.e. whether deeds of property, investments, or an issue of debentures as collateral security.

Do the Creditors' balances include a Loan, secured or unsecured, from any other source? If so, it should be shown separately.

8. *Fictitious Liabilities.*

Are the Fictitious Liabilities shown separately or are they merged in the other liabilities?

Are such items as Share and Debenture Premiums, Forfeited Shares Account, Unexpired Apprentice Premium, Apportionment of Royalties received in advance, etc., included elsewhere or are they separately grouped?

9. *Reserves.*

Are the Reserves properly stated, or are any false Reserves being shown? Reserves for Depreciation sometimes appear on the liabilities side, but on examination are often found to be the amount of Depreciation on assets provided out of profits and then allowed to accumulate, instead of being deducted year by year from the assets! This gives a totally false impression of the value of the assets, besides showing as Reserves purely fictitious amounts.

Is the so-called Reserve Fund really a fund or merely an account? Is it represented by a separate Investment outside the business, so as to be immediately available for emergencies, or is it merely an undivided portion of the general assets, and therefore not really available for emergencies?

10. *Profits.*

Are there substantial profits to divide, and are they being divided right up to the hilt, or is a portion of them being transferred to Reserve, and only the balance distributed? The former policy might please the shareholders, but would be financially imprudent.

The directors usually have power given them in the Articles to set aside a certain portion of the profits to Reserve. To this extent, therefore,

an equivalent amount of Cash is retained in the business instead of being paid away.

Sometimes a portion of the divisible profits is transferred to a special Dividend Reserve Account, to make good the profits of a lean year, and thus equalize dividends. This would be a sign of prudence, and bespeak good management; for it is obviously better to pay a normal dividend each year, than to pay a large dividend in good years when trade is booming, and perhaps none at all in bad years when there is a slump in trade.

In some cases, the profits though substantial are, when spread over the large Capital, insufficient to pay an appreciable dividend. This is because the company is over-capitalized, either by having called up more capital than it needed, or because too high a price has been paid for the Goodwill of the business. The latter, when very large, is paid for by a correspondingly large issue of shares.

In the case in point, therefore, the business has not earned sufficient profits to enable a dividend to be paid on them. This spells trouble; for the market value of the shares will soon fall when there are no dividends on them. Not only so, but the value of the goodwill as a marketable asset will decline rapidly. All the while good dividends are being paid, shareholders and creditors alike are usually satisfied; but when dividends drop or cease, then shareholders get restive and critical, and creditors become nervous.

Another point to be noticed is that, in some cases, although a good profit has been made and a dividend declared, the Balance Sheet discloses the fact that there is no Cash at bank with which to pay the dividend. This means recourse to Bank Loans in order to provide the necessary money; and the interest on such loans will, of course, reduce the profits available for future dividends.

Sometimes, however, a further call is made on the shares, in order to provide the Bank balance for paying the dividend, though, of course, such is not the avowed intention of the directors. Although the shareholder does not always appear conscious of the fact, yet this is merely taking money out of one of his pockets in order to put some back into the other.

11. *Capital.*

Although it is impossible to fix definite proportions of Fixed and Floating Capital, yet generally speaking, the less capital there is locked up in fixed assets, and the more there is invested in floating and liquid assets, the better the financial outlook. Capital in intangible assets should be reduced to the utmost possible limits.

When the Balance Sheet shows that there is still some uncalled capital, this fact is viewed favourably by creditors, as it could be called up by the liquidator to help pay the liabilities in the event of the company being wound up.

Calculation of Yield

For the purpose of calculating and comparing the approximate yield per cent per annum on the Capital invested with the nominal interest or dividend paid thereon, we will consider and make use of the following abridged and specially arranged Balance Sheet—

BALANCE SHEET

LIABILITIES	£	s	d	£	s.	d.
To Shareholders—						
20,000 7% Cumulative Preference Shares of £5 each fully paid	100,000	–	–			
20,000 Ordinary Shares of £5 each, fully paid	100,000	–	–			
				200,000	–	–
Reserve Fund	50,000	–	–			
Added this year	10,000	–	–			
				60,000	–	–
Lease Redemption Fund	10,000	–	–			
Added this year	2,000	–	–			
				12,000	–	–
Profit and Loss Account— Balance at credit				37,650	12	9
Total				309,650	12	9
To the Public—						
6% Mortgage Debentures (Secured on the Freehold and Leasehold Properties, and on the General Assets)	200,000	–	–			
Debenture Interest accrued	6,000	–	–			
Sundry Creditors	26,684	14	10			
				232,846	14	10
				£542,335	7	7

ASSETS	£	s.	d	£	s.	d.
Fixed Assets—						
Purchase Price of Leasehold and Freehold Properties	413,254	3	11			
Less further amount written off	10,000	–	–			
				403,254	3	11
Circulating Assets—						
Stock-in-Trade at cost	48,926	14	10			
Sundry Debtors less reserves	10,284	16	6			
				59,211	11	4
Liquid Assets—						
Reserve Fund Investments	48,826	12	6			
Cash on Deposit	5,000	–	–			
Cash in hand and at Bank	10,250	10	8			
				64,077	3	2
Total				526,542	18	5
Appropriated Assets—						
Lease Redemption Fund Investments				10,765	12	6
Intangible and Fictitious Assets—						
Preliminary Expenses				5,026	16	8
				£542,335	7	7

The Balance Sheet has been abridged and rearranged for the purpose of analysis. As regards the position of creditors and investors, we note that the principal asset, the properties, stands at £403,254, which is slightly in excess of the combined amount of Share Capital (£200,000), and Debentures (£200,000).

Of the real creditors of the company, amounting approximately to £232,685, the debenture holders, who are investors as well as creditors, rank first. Their debt of £200,000 is secured by a first mortgage on the leasehold and freehold properties, and by a second charge on the assets generally.

The total assets available are the Fixed Assets, £403,254, plus the Floating or Circulating Assets, £59,212, plus the Liquid Assets, £64,077, giving a grand total of £526,543. Thus, the Debentures are secured on assets worth (book value) over two and a half times the amount of the debt.

After payment of the Debentures, therefore, there is a balance of £326,543. The remaining creditors under Liabilities to the Public amount approximately to £32,685. After providing for these claims, there is still a balance of £293,858.

We now come to the Liabilities to Shareholders. Deducting the amount of the 7 per cent Cumulative Preference Shares, with presumably prior rights to repayment of capital, leaves a balance of £193,858 available for the Ordinary Shareholders. The Ordinary Share Capital amounts to £100,000. Each £5 share is, therefore, represented by assets worth (book value) nearly double.

The results may be shown in tabular form, with the market prices and yield set against them, as shown below.

The Debentures, although yielding only 5¾ per cent, stand at a premium. They are, of course, amply secured; in fact they seem to have all the security. This fact makes a powerful appeal to the cautious investor. Moreover, Debentures are sometimes issued at a discount and repayable at par, and sometimes issued at par and repayable at a premium.

The Preference Shares, although showing a fair yield, are at a discount; the Ordinary Shares, although showing a still higher yield, are also at a discount. The higher yields and lower prices are likely to attract the speculative investor, but the lack of security would repel the more prudent or cautious investor.

The old saying: "Where there is great interest, there is always great risk," is undoubtedly still true. In commercial undertakings there is no guarantee that good dividends will be maintained. Not only may dividends drop, or cease altogether, but there is also the grave possibility that the invested capital itself may be irretrievably lost. The higher rate of interest and the lower purchasing price are the compensation demanded by investors for taking such risks.

Liabilities	Book Value of Assets Available	Margin	Times Covered by Assets	Current Market Quotations	Interest or Dividend per cent	Approx. Yield per cent
	£	£		£		
Total Assets	526,543					
Debenture Holders	200,000	326,543	2·63	102–104¼	6	5¾
	326,543					
Creditors	32,856	293,858	10·00	—	—	—
	293,858					
Preference Shareholders (£5 shares) .	100,000	193,858	2·93	4⅜–4⅝	7	7½
	193,858					
Ordinary Shareholders (£5 shares) .	100,000	93,858	1·93	4⅛–4 5/16	10	11½
	£93,858					

CHAPTER XXXVI

THE SECRETARIAL DEPARTMENT

IN very many businesses the usual work of a secretary, that is, the writing or dictating of letters, is done by the proprietor of the business, and if the correspondence is very large, part of it would be delegated to a confidential clerk. But in a joint stock company, a secretary is a very necessary being, not only because there must be some one person to act as a link between the Board of Directors and the remainder of the staff, but also because he is distinctly named as being the responsible person for seeing that some parts of the Companies Acts are carried out in a proper manner. In addition, as there are more proprietors in a joint stock company than in an ordinary one-man business or partnership, so there is much more work in recording the transactions between those proprietors and the company than there is in a sole trader's business or partnership. Consequently the secretarial department, as distinct from the correspondence department, is an important part of the section of the business under the control of the secretary. In this chapter it is proposed to deal with the main work of a secretary's office.

Apart from the personal duties of the prospective secretary in attending meetings of the founders, solicitors, auditors, and brokers to consider the drafting of the Prospectus, the Memorandum and Articles of Association and other matters pertaining to the promotion of a new company, the first great work of his clerks (for by this time he will have engaged a suitable number) is the receipt of the application forms from the would-be shareholders.

Application Forms

An application form, a specimen of which appears on page 494, will have been enclosed in every copy of the prospectus distributed by the promoters, brokers, and other agencies who specialize in this work. If more than one class of share is being offered for subscription, the application forms will be of different colours in order that the work may be facilitated. Most forms indicate that the form and remittance due on application must be sent to a certain bank. If this is done, the bank will make a list of the application forms according to the class of share, number them, and record the cheques. The daily totals of these sheets will also be entered in the special pass-book opened for the issue. The company will then arrange to collect the forms and bank sheets, probably daily, in order that they may be checked and listed. A form of bank sheet is shown below.

The . . . . Bank, Limited.

The . . . . . Company, Limited

(Ordinary Shares) Application Account

Sheet No . . . . . . 19..

Bank No.	Number of (shares)	Amount £	s	d	Remarks
0					
1					
2					
3					
4					
etc.					

The forms will be checked with the bank sheets and the totals agreed with the pass-book. Each form will also be scrutinized, and this process will be very carefully carried out, particularly to see that the amount paid on application bears the right proportion to the number of shares applied for; that the form is correctly signed and dated; that the full postal address and occupation of the applicant are given; and that where more than one class of share is being issued, the right form is used, the preference share application form for the preference shares, and the ordinary share application form for the ordinary shares, or whatever classes are being applied for. This is necessary because sometimes it happens that an applicant adapts a form to suit his own needs.

After the forms have been examined it will be necessary for them to be sorted into groups corresponding with the letters of the alphabet, and then to arrange each group in strict alphabetical order. As soon as this is done, the particulars on them are copied into the Application and Allotment Book, ruled similarly to that on page 500, a separate book being used for each class of share. In the case of a large issue, however, it will be more convenient for loose sheets to be used, so that several clerks may be employed. Each clerk would then deal with different groups as required. When all the forms have been entered, the column for shares applied for, and the cash column will be totalled and agreed, the former with the bank sheets, and the latter with the pass-book.

Allotment

The precise act of allotting shares is performed by the directors at a properly constituted Board Meeting at which the secretary will produce the allotment sheets and application forms, and will record the resolutions by which the directors make the allotment.

As each application is considered, the number of shares is marked in pencil against the applicant's name, and when a sheet is completed it is sent out to a clerk to be added, checked by a colleague, and returned to the Board Room. When all the allotment sheets have been gone through, it will be seen whether there has been an over-allotment or an under-allotment, and then it will be necessary for the lists to be gone through again. Possibly all applicants for 500 shares, who may have been allotted 350, will suffer a reduction to 300, or it may be that the allotment will be increased to 375. When the total of the shares that have been allotted has been agreed with the number that may be allotted, the appropriate columns of the Application and Allotment Book will be completed and the further amount of money due on allotment will be worked out.

Letters of Allotment and Regret

As soon as the allotment is made it will be necessary to notify the successful applicants, and to issue letters of regret to the unsuccessful ones, if it happens that the issue has been over-subscribed. These forms appear on pages 496 and 504 respectively. They will, of course, have been printed in readiness, and in addition the letters of allotment will have had impressed on them an embossed stamp for 6d., if the total nominal value of the shares allotted is £5 or over, as it probably will be, and for 1d. if the total nominal value is under £5. The letter of allotment should be filled in very carefully, and checked before being signed by the secretary. The posting of the letters of allotment constitutes the final act in the contract between the company and the shareholders, and consequently care should be taken to note when the posting takes place, in case a shareholder writes to say he withdrew his application. The question will then arise whether the withdrawal was received by the company before the posting of the allotment letters. This note of posting may appear in the Postage Book, recording the date, time, and place; or sometimes a column is inserted on the application and allotment sheet to record the date.

In addition to sending out letters of regret, it will be necessary to draw cheques returning the amount of the application money. This work should be dealt with without delay, as it would be manifestly unfair to keep an applicant waiting for money which has been laid out in vain.

When the allotment letters have been posted, the cheques for brokerages, the allocation of numbers to the shares of each allottee, and the making of the Register of Members will be proceeded with.

Brokerage

As regards brokerage, it is usual for a commission of a few pence per share to be paid by the company to banks and brokers in respect of shares allotted in response to applications influenced by them. Banks and brokers usually have their initials printed on the application

forms inserted in the prospectuses distributed by them, and these initials will be noted in the "remarks" column of the application and allotment sheets. The dissection necessary before the calculations for the cheques can be made, is then easily obtainable from this column.

Numbering

It is one of the rules of Company Law that every share shall have a distinctive number, and, therefore, it will be necessary to allocate specific numbers to the shares contained in each allotment. The numbers will first be entered on the application and allotment sheets, and if this duty is performed by a clerk who possesses experience in this act, it will not occasion any difficulty, but it must be noted that any mistake will have a cumulative effect. Sometimes an arrangement is made that the first name on each sheet is started with the appropriate relative number, and the last name ended with the last relative number, and then the remaining allocations are made by whatever clerks are available. In this way a mistake would be localized to a particular sheet. If there is more than one class of share, each class would have a different series of numbers.

While these things are being done, in all probability the amount of cash due on allotment is being received by the company's bank, and it will be necessary for the pass-book and dockets to be obtained from the bank so that the appropriate columns of the application and allotment sheets may be completed.

Register of Members

The Register of Members is one of the most important books that has to be kept by the company, for it is the final court of appeal as to whether a member is really a member of the company or not. Strictly speaking, the book is supposed to be in existence from the date of the company's registration, and if the number of members did not become much larger than the signatories to the memorandum, this might be practicable. But as the majority of public companies have hundreds of shareholders the writing up of the book can only be done some time after the date of registration; in most cases it will probably be commenced as soon as the allocation of numbers to the shares of each allottee has been completed. A ruling of this book is shown on page 514–5.

In many companies, where there is a large number of shareholders, the Register is contained in one or more books, each book containing the accounts of those members whose names are included in the section of the alphabet allotted to that particular book, such as, A–F, G–M, etc. In those cases where there is more than one class of share, there may be a separate set of registers for each class, although sometimes the ruling is adapted in such a way as to include the number of shares of each class in adjacent columns. In such circumstances as these, it will be advisable, when all the books have been written-up from the allotment sheets, for a Trial Balance to be taken out, so that the number of shares may be compared with the total issued, thus affording an independent check on the allotment sheets. A Trial Balance might also be conveniently taken out at the end of, say, six months, so as to check the Registers after a large number of transfers had been entered.

Index

The provision of an index to the Register of Members or Share Ledger used not to be regarded as necessary by some companies, but now, by recent legislation, it has been made compulsory where the company has more than 50 members. When a company subdivides its share ledger into volumes alphabetically, it is usual to arrange that the individual accounts are also in strict alphabetical order, and thus the share ledger indexes itself. Even where a new class of share is created, it is possible, providing the books are on the loose-leaf principle, and the number of shareholders is only moderately large, to use the same books and index, by inserting the particulars of the second class of shares on a differently coloured sheet underneath the first class of share in each shareholder's account But in the case of a company having separate ledgers for the different classes of shares, even supposing each ledger is in alphabetical order, some record is needed of the folios of each class in those cases where shareholders hold more than one class of share. This record is conveniently kept on the card index system, and this will also fill the requirements of the law as to the keeping of an index. A specimen is given on page 589.

These cards could very well be made out at the same time as the application and allotment sheets, and would afford valuable information as to applicants applying for more than one class of share, or sending more than one application form for each class.

Manison, John, Varsea, High Road, Torend.			M.11
	Application Form No	No. of Shares	Register of Members folio
Preference Shares			
Ordinary ,, ...			

The question as to what will be the procedure after the writing up of the Register of Members will depend on the Articles of Association, that is, upon whether the share certificates are to be ready before the first call is made, if the shares are not yet fully paid ; or whether the shares are to be fully paid before the share certificates are issued. If the certificates are issued soon after the payment of the allotment money, it will be necessary for them to be returned to the company's office when the further calls are being made, thus causing extra clerical work. On the other hand, it must be borne in mind that if a Stock Exchange quotation is desired, the certificates must be ready for delivery before this will be granted. For instance, a company might arrange that a first and final call should be made one month after allotment, and that the share certificates would be ready after the payment of the call.

Calls

Then since the call is being made early, it would probably be convenient to have extra columns provided in the Application and Allotment Book, instead of having a separate Call Book. This, of course, would be arranged for before the Application and Allotment Book is obtained. In that case where there is no necessity to make a separate Call List or Book, the Call Letters would be addressed direct to the shareholders from the Applications and Allotment Book. Care would be taken, however, to see, from the "remarks" column, that if a transfer has been noted, the call letter is sent to the transferee and not to the transferor. If, however, the call was not made until three or four months after the allotment, a separate Call List would be advisable. and call letters would be sent to the shareholders on this list.

When the call money has been received by the bank the company will obtain the pass-book for the call and enter on the call list the date the payment was made. This entry would then be posted to the credit of the Cash Account in the shareholder's account in the Register of Members, the debit having been made at the time the call list was made out.

Share Certificate

The next item would be the making out of the Share Certificates, which, as mentioned on page 510, are certificates of title of a share holding. These documents demand care in their completion, and particular attention should be paid to the name and address of the shareholder, and the numbers of the shares. They are usually bound in books of about 100 with counterfoils and receipt forms attached. Where there is more than one class of share, the colour of the certificates should be uniform with the other documents in connection with the issue, and the certificates for each class should be prepared simultaneously. This will save time when writing to the shareholders. After the certificates have been prepared and checked, it will be necessary for them to be signed, usually by two directors and the secretary, and also sealed, a record being kept in the Seal Book. Then notifications, an illustration of which is

THE WESTERN MANUFACTURING COMPANY, LIMITED

98 Western Park Road,
London, S.W.7.

Date.. ... . .19..

Dear Sir (or Madam),

I have to inform you that Share Certificates are now ready for both Ordinary and Preference Shares. They will be exchanged for the Application, Allotment, and First Call Receipts given to you by the Company's Bankers for the different instalments paid by you. If you are unable to attend at this office personally to effect the exchange above mentioned, please fill in, sign and forward to me, one of the two forms appended hereto.

I am,
Yours faithfully,

Secretary.

To

. . ..

Address . . . .

.. ..

Date ... . 19..

To The Secretary,
The Western Manufacturing Co , Ltd.,
98 Western Park Road,
London, S.W.7.

Sir,

I enclose herewith *four* receipts representing the full amount of the instalments paid upon the Ordinary and/or Preference Shares standing in my name, and I hereby request you to forward the share certificates in respect of same to this address, at my risk.

Yours faithfully,

. .. .

Address . . . .

... .

Date . . . .. 19..

To The Secretary,
The Western Manufacturing Co , Ltd.,
98 Western Park Road,
London, S W.7.

Sir,

Kindly hand my share certificate to . . . . of.. . . .., who will hand you the bankers' receipts in exchange. Their receipt for the said certificate . shall be your full discharge.

Yours faithfully,

....

shown on page 590, will be sent to the shareholders asking them to collect the certificates, or to appoint a nominee to do so, but whoever does will be required to sign the receipt. This will then be detached from the certificate and filed

Transfers

It would be unusual, indeed, for a company to have reached the stage of issuing share certificates without having had to transfer any of its shares, but it is unlikely that the transfers before that stage is reached will be many compared with the number afterwards. Therefore, it is more convenient to consider the process at this point rather than previously.

Every shareholder has the right to transfer, without restriction, his shareholding in a company, although some companies, particularly private ones, place restrictions as to whom the shares may be transferred. It is a rule of the Stock Exchange, however, that if a quotation is desired, no question must be raised by the directors as to the desirability of the transferee except, of course, where a restriction is imposed by law.

When a shareholder wishes to transfer his shares, he must usually find a buyer, who will pay him cash for them. This is the general rule, although there are other methods by which shares may be transferred. Having decided to sell the shares, it is usual, although not necessary, for the shareholder to instruct an agent, a broker on one of the various Stock Exchanges, to find the necessary buyer. After the broker has done so, he will make out a transfer form, a specimen of which appears on page 516, completing it as far as he can, and send it to the shareholder for signature and witnessing. When this has been done, the shareholder returns it to the broker together with his share certificate.

The procedure next will depend on (1) whether all the shares contained in the share certificate have been sold, and on (2) whether they have been bought by one purchaser only. If both of these obtain, then the broker will exchange the transfer and share certificate for a cheque in payment of the purchase price.

Certification

But if it happens that only part of the shares are sold, or if the whole is sold to more than one purchaser, or part is sold to more than one purchaser, then the transfer must be " certified."

This may be done in two ways (1) by the secretary of the Stock Exchange, or (2) by the secretary of the company. The procedure in the first case is for the broker to take the transfer and share certificate received from the seller to the secretary of the Stock Exchange and obtain a certification on the transfer that the share certificate has been deposited with him. The share certificate is then sent to the company's office, while the broker retains the transfer in order that it may be completed by the signatures of the purchaser and his witness. By the second method the two documents are taken to the company's office and certified by the secretary. This consists in a rubber stamp being impressed on the transfer on the top left-hand side. The form of the certificate is as follows—

WESTERN MANUFACTURING COMPANY, LIMITED

Certificate No . lodged

(date. .)

at company's office

. .

Secretary.

per . . . . .

The secretary then retains the share certificate and hands the transfer back to the broker for completion. If the share certificate contains more shares than the transfer, then the broker will also receive a Balance Ticket for the number of shares unsold. Such a form is shown on page 592.

These tickets are printed in books of about 200 each and numbered, and a carbon copy can be made of each ticket issued.

The deposited share certificate will be cancelled and filed in the company's file under the name of the transferor, until such time as the completed transfer is lodged for registration. Before being filed, however, particulars of the shares sold will be noted on the back of the certificate ; if all the shares are being transferred, then the word " all " is written in the space provided for the distinctive numbers. But if the shares on the certificate are only part of those on the transfer, then the words " part of transfer for.....shares " will be added to the distinctive numbers. As soon as the transfer

WESTERN MANUFACTURING COMPANY, LIMITED

(Incorporated under the Companies Act, 1929)

Registered Office: 98 Western Park Road, London, S.W.7.

No. BT 1

Certificate No.. ... . 19..

BALANCE TICKET

Issued in respect of.. . . .. shares in the above-named Company, standing in the name of........ . . .. and numbered as per margin, the Certificate for which has been deposited in the Company's Office.

... .

Secretary.

per....................................

New Certificate will be ready in exchange for this Receipt in one calendar month of the above date, and will be sent by post on written request at applicant's risk.

Issued to.......... .. . .

... .

.. ..

is completed by the insertion of the signatures of the purchaser and witness, it is taken by the purchaser's broker to the company's office for registration. This will entail the payment of a fee, usually 2s. 6d. for each transfer. In return he will receive a transfer receipt which will entitle him to possession of the new share certificate when this is ready. At the end of the day, the company will send to each transferor, a notice, stating that a transfer has been deposited bearing the transferor's signature, and that if a reply is not received by return of post the transfer will be assumed to be correct, and will be placed before the directors for approval.

Examination of Transfers

The transfer must now be examined and careful attention paid to the following matters—

1. The name and address of the broker depositing such transfer must be on the back.
2. That the transfer contains one class of share only, that is, if the shares of a company are of more than one class, separate transfers are used for each class.
3. That the transfer has been certified, or has attached to it one or more share certificates.
4. The stamp duty should be checked; and if for a nominal consideration the reason should be ascertained, unless, of course, there is an adjudication stamp.
5. That the transferee's name, address, and occupation are clearly stated, so that there is no possibility of a trust being recognized.
6. The company's name, the denomination of the shares, the signatures, and any other incidental matters should be scrutinized.
7. That the date of lodgment and number of the transfer receipt have been noted on it.

After all the transfers received during the day have been examined, it will be necessary to prepare them for registration. First, a stamp similar to the following will be placed at the top of each one.

Transfer No. . ...

Certificate No. . . . .

Passed ... .

Transferor folio . . . .

Transferee folio . . . .

The Share Ledger folio will then be marked in pencil, and subsequently they are entered in the Register of Transfers, a specimen ruling of which appears on page 517. The deeds will then be filed in the "transfer box" or portfolio, under the names of the transferors, and some time before the board meeting, the cancelled certificates will be assembled with the transfers to which they refer, and the whole arranged in alphabetical order. The transfer numbers will also be placed on the certificates, and the names and distinctive numbers on these documents checked with those on the transfers.

After this work has been completed, the new certificates for the transferees will be prepared, each transfer having a new certificate. There will also be prepared a new certificate for the transferor in those cases where there is a balance of shares unsold on a cancelled certificate. After these new certificates have been carefully checked, a statement of the totals of the shares will be made out for the information of the directors. When the board has approved the transfers, the entries in the Register of Transfers will be posted to the Share Ledger, although sometimes this is done before the formal approval of the transfers by the directors, but in any case, the "date of entry" will be the date on which the transfer will be passed by the board. After the postings have been completed, those accounts in which all the shares have been sold will be closed in the Share Ledger by ruling off and adding the word "closed" to the account. Also it will be necessary to open new accounts for those shareholders who have just become members. As soon as the entries have been checked, the transfers will be filed or pasted into a guard book, and the new certificates, after being detached from their counterfoils, will be arranged in alphabetical order for delivery to the brokers in exchange for the transfer receipts or balance tickets.

CHAPTER XXXVII

CAPITAL AND REVENUE

THE correct distinction between capital and revenue, with respect both to receipts and expenditure, is one of the fundamental principles of good accounting. In all cases it is most essential that this distinction be clearly drawn and strictly observed. Failure or neglect to discriminate between capital and revenue will throw out the whole of the accounting, and produce entirely false results.

For example, Repairs to Buildings may be charged to Premises Account; Machinery may be bought and charged to the Purchases Account; or some Plant may be sold and the proceeds treated as a profit. These and similar mistakes are easily made. The result in each case would be that the Profit and Loss Account and Balance Sheet would be both inaccurate and misleading.

When preparing the final accounts from the firm's Trial Balance, the same necessity arises for discriminating between Capital and Revenue. The accountant must know definitely which items go in the Trading and Profit and Loss Account, and which go on the Balance Sheet.

Capital and Revenue Expenditure

Capital Expenditure consists of all amounts expended in acquiring assets for the purpose of earning income, or enhancing the value of those assets, and also expenditure which results in increasing the earning capacity of the business; as, for example, Land and Buildings, Plant and Machinery, Mining or Patent Rights, and Additions to Buildings, Installation of Electric Power, etc.

Revenue Expenditure comprises all amounts expended for repairs, renewals, or replacements, and depreciation of the fixed assets; it also includes the current expenses of carrying on the business, namely, rent, rates and taxes, wages and salaries, carriage, insurance, advertising, etc.

In the following instances, a distinction has been made between Capital and Revenue items, in order still further to illustrate the subject—

Purchase of Machinery and Plant	Capital
Repairs to them	Revenue
Annual Depreciation of them	Revenue
Installation of Electric Light and Power	Capital
Annual Maintenance of such	Revenue
Purchase of Lease	Capital
Repairs to Leasehold Premises	Revenue
Ground Rent	Revenue
Annual Amount Written Off Lease	Revenue
Patent Rights	Capital
Renewal Fees for them	Revenue
New Wing to Premises	Capital
New Wheels for Motors	Revenue
Purchase of Additional Motors	Capital
Purchase of Stock of Spare Parts for Above	Capital
As and when Above are Used	Revenue
Sale of Old Furniture and Fixtures (depreciated value in books, £56) for £40, and Purchase of New Furniture and Fixtures, £120, in place of it—	
Loss on Sale of Old Furniture and Fixtures, £16	Revenue
Cost of New Furniture and Fixtures, £120	Capital

Although general rules have been laid down in the preceding paragraphs, the question is not always an easy one to solve. The special circumstances in connection with the expenditure must be taken into consideration, as they undoubtedly complicate the matter.

Carriage is usually a revenue expense; but when plant and machinery are purchased and carriage inwards is paid thereon, the carriage is added to the cost of the plant and machinery, thus capitalizing it.

Repairs are usually a revenue charge; but when second-hand machinery is purchased, and immediate repairs are made to it in order to render it serviceable, then such repairs are added to the cost of the machinery, thus capitalizing them.

Wages are a revenue expense; but if a firm buys some new plant, and then has it erected and fitted by its own workmen, the wages of these workmen, during the time taken to erect and fit the plant, must be added to the cost of the plant, thus capitalizing them.

Legal Expenses are a revenue expense; but legal expenses paid for conveyancing when purchasing property are added to the cost of the property, thus capitalizing them. In the Double Account System, Legal and Parliamentary Expenses incurred in the promotion of bills for the establishment of railways, gas works, electric light undertakings, etc., are also allowed to be capitalized.

Brokerage and Stamps would usually be looked upon as a revenue expense, but when purchasing an investment, they are added to the cost of the investment, thus capitalizing them.

Interest on Capital is generally regarded as a revenue expense; but *during the construction* of works, or buildings, or plant, it is allowed by law to be added to the cost of such works, or buildings, or plant, thus capitalizing it.

Apportionment Between Capital and Revenue

In some cases, it becomes necessary to apportion an item of expenditure between capital and revenue, that is, to charge part of it to Capital, and to write off the balance to Profit and Loss Account. This is more particularly the case with alterations, improvements, and extensions of premises and plant.

It would not always be prudent to capitalize the whole of such expenditure, as the value of the premises or plant might not be increased to anything like the extent of the amount expended. An apportionment is therefore made, one-third being charged to capital and two-thirds to revenue, or half to capital and half to revenue, or in any other proportions considered equitable under the circumstances.

Temporary Capitalization of Expenditure

Expenditure chargeable against revenue is frequently capitalized and then written off gradually over a series of years. Examples of this have already been given in the case of Debenture Discount, Preliminary Expenses, Plant and Machinery suddenly becoming obsolete, and Advertising Suspense Account.

Advertising is one of the most difficult of all outlays, properly to charge upon the period during which it is appearing and the future.

In Mail Order Advertising the only really safe course is to charge the outlay as an expense, and to have no account for cumulative benefit.

In National Advertising, provided a sound and successful policy has been adopted, the value of each year's outlay can reasonably be assumed to have a value that can be carried forward and shall not be wiped out under several years.

Items Needing Special Treatment

In those cases such as a factory where there are heavy appliances and machines, boilers and engines, and also a number of light implements in constant hand use, a rule is sometimes adopted by which all articles that may need renewal within two years is a utensil and reckoned as an upkeep expense, while every article that is of the heavier character is an expenditure on plant.

But in some cases such a rule would only be proper if any unusual purchase for a large increase in machinery were made.

A new boiler and engine, shafts and belting to fit out an extension of a workshop and costing £2,000, might necessitate an outlay on tools and appliances of another £1,000, all of them articles of comparatively short life.

In such a case after the first outlay it would be proper to regard small purchases as repairs and renewals, but that first purchase could scarcely be treated in this way

Now what applies to a sudden increase should also apply to a series of small increases, and the case is not altered if the additional workshop is equipped in one act or is the consequence of a number of extensions.

The case is used as an illustration of an interesting problem. Machine shops usually have their own methods of dealing with this subject which their experience justifies, but the problem is one that constantly appears in any business where large quantities of quickly wasting appliances are in use.

Opinions differ on the point; and although such procedure may be quite legal, it is considered better policy to err on the safe side, and *not capitalize permanently* any expenditure which is not represented by tangible assets. Like other capital losses, it should, then, be charged against revenue year by year until extinguished.

Capital and Revenue Receipts

Capital Receipts include any additional capital paid in by the partners or proprietor, also any advances by any of the partners, or, in the case of a joint stock company, any sums received from shareholders and debenture holders, any loans, and the proceeds of sale of any of the assets.

Revenue Receipts are the profits arising from the sales, any commission earned, discounts received, interest received, transfer fees, and any income from investments.

Double Account System

The Double Account System is a method of

accounting prescribed for companies incorporated, under special Acts of Parliament, for the purpose of constructing, or acquiring, and working large public undertakings, such as railways, gas companies, electric light companies, etc. It is said to have been designed by a lawyer, owing to the well-known partiality of the Court of Chancery for a *cash* statement.

The Double Account System is compulsory in the case of Railway and Tramway Companies governed by the Regulation of Railways Act, 1868, as modified by the Railway (Accounts and Returns) Act, 1911, and the Railways Act, 1921, and Parliamentary Gas Companies adopting the Gas Works Clauses Act, 1871. Under the Electric Lighting Acts, 1882–90, the Board of Trade has prescribed for Electric Light Companies a form of accounts based on the Double Account System. Other companies, particularly those which invest their capital in fixed or permanent assets for the purpose of earning income, have also adopted the system. These are Tramway, Canal, and Shipping Companies, Telegraph and Telephone Companies, Mining and Quarrying Companies, Water and Electric Power Companies, and also companies holding land and buildings for letting purposes.

The principles of Double Entry apply just as much to a company adopting the Double Account System as to any other company or business firm. And though "Double Entry" is sometimes confused with the "Double Account System," the distinction is quite well defined; for whereas "Double Entry" is a special system of book-keeping, the "Double Account System" is a special set of statutory forms for the presentation of final accounts.

Difference Between Single Account and Double Account Systems

In the Single Account System, the assets and liabilities all appear in one final account, called the Balance Sheet. In the Double Account System, the Balance Sheet is divided into two parts. The first part, called the Capital Account, contains the *fixed* assets and liabilities; the second part, called the General Balance Sheet, contains the *floating* assets and liabilities.

There is also another difference.

In the Single Account System the assets appear in the Balance Sheet less the depreciation written off them; but, in the Double Account System, the assets are never depreciated, appearing in the Capital Account always at cost.

Special Features of the Double Account System

The special features of the Double Account System are—

1. The division of the Balance Sheet into two parts: (*a*) the Capital Account; (*b*) the General Balance Sheet.
2. The separation of the *fixed* Assets and Liabilities from the *floating* Assets and Liabilities.
3. The non-depreciation of the assets.

The Capital Account, or the first part of the Balance Sheet, contains the various items of Capital Receipts and Expenditure as they appear in the special Capital Account Ledger.

On the one side are receipts from shares or stock, and debentures, including premiums, if any.

On the other side are shown the various assets on which the money received has been expended. Law charges in connection with land, and Parliamentary Expenses in promoting special Acts of Parliament, are also treated (in accordance with the prescribed form) as items of capital expenditure.

The General Balance Sheet, or the second part of the Balance Sheet, contains the balance of the Capital Account. In the case of Electric Light companies, the total of the expenditure and the total of the receipts are shown separately, one on each side. Then appear the floating assets, such as Stock, Debtors, and Cash, and on the other side, the floating liabilities, Creditors, Reserve Fund, Depreciation Fund, and Revenue Account balance.

The distinction between capital and revenue is carefully maintained under the Double Account System. Capital Receipts are the amounts received from shareholders, stockholders, and debenture holders. Capital Expenditure consists of the various sums spent in acquiring, constructing, or extending the undertaking. Revenue Receipts embrace all income earned by the undertaking. Revenue Expenditure comprises all expenses of working and maintaining the undertaking, including repairs and renewals. Although no provision has been made for wasting of capital assets, the excess of Revenue receipts over Revenue expenses is considered to be profit for the year or working period.

Treatment of Depreciation and Renewals

Under the Double Account System the assets are never depreciated. The undertaking is

maintained in good working order out of revenue. Provision can, however, be made for depreciation by charging a fixed percentage on each asset to Net Revenue Account, and crediting it to a Depreciation Fund Account.

In the case of Electric Light Companies such funds are compulsory for leasehold works, buildings, plant, and machinery; in the case of Gas Companies, for leasehold works; and not only so, but they must be represented by actual investments.

Further, some companies also debit Net Revenue Account with a fixed sum each year, and credit same to a Repairs and Renewals Fund Account. The actual expenditure on repairs and renewals is then charged to this Fund instead of to Revenue. The effect of this regular charge against Revenue is to prevent a very large item of expenditure in any one year reducing the dividend, or making the payment of a dividend impossible.

Advantages and Disadvantages of the Double Account System

The advantage claimed for the Double Account System is that the Capital Account is in the nature of a Cash Account, and therefore more easily understood by shareholders and others whose knowledge of book-keeping may be limited.

On the one side it can easily be seen how much money has been received from shareholders, stockholders, debenture holders; while, on the other side, it can also be readily seen how such money has been expended, and how much remains for the purpose of working the undertaking.

The disadvantages of the system are said to be—

1. The Balance Sheet is not a correct representation of the state of affairs. Assets are shown therein at cost regardless of the time they have been in use, and continue to be so shown even when they have become obsolete and are no longer in use.

2. The profits of the various years are very inaccurately stated, and therefore misleading. As the fixed assets have to be maintained out of revenue, this involves a heavy charge against the year in which the renewal takes place. The asset having rendered the same service year by year, the cost should be charged proportionately against each year. As it is, the profits of the years prior to renewal will be large, while the profit of the year of renewal will be very considerably reduced. This defect can, of course, be remedied by creating a Repairs and Renewals Fund, as previously explained; but such a procedure is certainly a departure from the original idea of the Double Account System.

Additions and Extensions

Under the Double Account System, any additional assets acquired are, of course, added to the Capital Account. When replacements are accompanied by additions or extensions of the original asset, the cost of the replacements must then be allocated between capital and revenue. There are two methods of doing this.

Under the first method, the original cost of the asset, as it appears in the Capital Account, is charged to revenue; the cost of the replacement, including the extension, is then capitalized.

Under the second method, the cost of replacing the asset as it stands, i.e. without any extension, is estimated, and this amount charged to revenue. The difference between this estimate and the actual cost, including the extensions, is then charged to capital.

For instance, suppose an asset stood in the books at £90,000; that it was rebuilt and enlarged at a cost of £130,000; and that the estimated cost of replacing it as it stood was £80,000. By the first method, £90,000 would be charged to revenue, and £130,000 would appear in the Capital Account. Under the second method, £80,000 would be debited to revenue, and £140,000, that is, an extra £50,000 would be capitalized. Any sum realized by the sale of old material is credited to the cost of the replacement charged to revenue.

Conversion of Ordinary Stock

By the Regulation of Railways Act, 1868 (Sect. 13), railway companies which, in the year immediately preceding the conversion, have paid a dividend on their Ordinary Stock of not less than 3 per cent, have power to divide their paid-up Ordinary Stock into two classes: Preferred Ordinary Stock, and Deferred Ordinary Stock. But

"Preferred and Deferred Ordinary Stock shall be issued only in substitution for equal amounts of paid-up Ordinary Stock, and by way of division of portions of Ordinary Stock into two equal parts."

For every £100 of Ordinary Stock, therefore, there will be £100 Preferred Ordinary Stock and £100 Deferred Ordinary Stock. The nominal

amount of the new Stock will be £200, and it will be issued virtually at a discount of 50 per cent.

The object of such "splits" is to make the Stock more marketable. As the conversion is only a paper transaction, the amount appearing in the Capital Account will not require alteration (no extra money having been received). The record will, however, be made in the "Statement of Stock and Share Capital Created."

Prescribed Forms of Account

On the following pages will be found the prescribed forms of account for Gas Companies, Electric Light Companies, and Railway Companies—

(1) GAS COMPANY

C.—CAPITAL ACCOUNT

Dr FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

	Expenditure to 31st December, 19 .	Expended this Year	Total to 31st December, 19.		Certified Receipts, 31st December, 19..	Received during Year	Total Receipts to 31st December 19..
	£ s d	£ s d	£ s d.		£ s d	£ s d	£ s d
1 To Expenditure to 31st Dec, 19..				1 By Ordinary Shares of £ each			
Since that Date							
2 „ Lands Acquired, including Law Charges				2 „ Ordinary Shares of £.. each			
3. „ New Buildings, Manufacturing Plants, Machines, Storage Works, and other Structures connected with Manufacture				3 „ Preference Shares of £.. each			
4. „ New Mains and Service Pipes (not being in place of old ones), including Laying same, Paving, and other Works connected with Distributon				4. „ Debenture Stock			
5 „ New Meters (not in place of old ones), including Fixing				5 „ Mortgages and Bonds			
6. „ Cost of Promoting Special Act				6. „ Amount Received in Anticipation of Calls			
7 „ Special Items (if any)							
Total Expenditure				Total £			
To Balance of Capital Account							
£							

D.—REVENUE ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

	£	s.	d.	£	s.	d.
TO MANUFACTURE OF GAS—						
1 Coals, including Dues, Carriage, Unloading, and all Expenses of Depositing same on Works						
2 Purifying Materials, Oil, Water, and Sundries at Works						
3 Salaries of Engineers, including Chief Engineer (if any), Superintendents, and Officers at Works						
4. Wages and Gratuities at Works . .						
5 Repairs and Maintenance of Works and Plant (including Renewal of Retorts), Machines, Apparatus, Tools, Materials, and Labour						
Less Old Material Sold						
TO DISTRIBUTION OF GAS—						
6. Salaries of Surveyor, Chief Inspector, Inspectors, Assistant Inspectors, and Clerks in Light Office						
7 Repair, Maintenance, and Renewal of Mains, and of Service Pipes, including Materials, Laying and Paving, and Labour .						
8. Repairing, Renewing, and Refixing Meters .						
TO PUBLIC LAMPS—						
9 Lighting and Repairing						
TO RENTS, RATES, AND TAXES—						
10. Rents						
11. Rates and Taxes						
TO MANAGEMENT—						
12. Directors' Allowances . . .						
13. Salaries of Secretary, Accountant, and Clerks, Office Keepers, and Messengers .						
14. Collectors' Commission or Salaries . .						
15 Stationery and Printing						
16 General Establishment Charges and Incidentals						
17 Auditor						
TO LAW AND PARLIAMENTARY CHARGES—						
18. Law						
19. Parliamentary (Oppositions) . . .						
20. To Depreciation Fund for Works on Leasehold Lands (if any) . . .						
21. To Bad Debts						
To Other Items (if any)						
Total Expenditure . .			£			
Balance carried to Profit and Loss Account, (E)						

	£	s.	d.	£	s.	d.
BY SALE OF GAS—						
1 Common Gas (cubic feet), at / per 1,000 cubic feet . . .						
2. Cannel Gas (cubic feet), at / per 1,000 cubic feet . . .						
3 Public Lighting and Under Contracts						
4. Rental of Meters						
BY RESIDUAL PRODUCTS—						
5. Coke, *less* Labour and Cartage . .						
6 Breeze, *less* Labour and Cartage . .						
7. Tar, *less* Labour and Cartage . .						
8. Ammoniacal Liquor, *less* Labour and Cartage						
9. By Rents						
10. By Transfer Fees						
By Other Items (if any)						
Total Receipts . . .			£			

E.—PROFIT AND LOSS ACCOUNT (NET REVENUE)

FOR THE YEAR ENDING 31ST DECEMBER, 19..

Dr	£	s	d.	Cr.	£	s	d.
1. To Amount Carried to Reserved Fund A/c (F) (if any) from Profits of 19.. .				1. By Balance of Net Profit Brought from Last Account (31st Dec., 19..) . . .			
2. ,, Interest on Temporary Loans and Moneys Received in Anticipation of Calls				2. ,, Amount Drawn from Reserved Fund (if any) . . . *Less* Dividend Paid for the Half-year ended 31st Dec, 19.. . . .			
3. ,, Interest on Mortgages and Bonds Accrued to 31st Dec, 19.. . .				3 ,, Balance Brought from Revenue A/c (D), being Profit for Year to Dec, 19			
4. ,, Interest on Debenture Stock to 31st Dec., 19..				4. ,, Interest on Moneys Deposited . .			
5. ,, Half-year's Dividend on 1st Preferential to 30th June, 19.. .							
6. ,, Half-year's Dividend on 2nd Preferential to 30th June, 19.. .							
7. ,, Half-year's Dividend on Ordinary Shares at per cent .							
,, Balance of Net Profit to be Carried to next Account subject to Half-year's Dividends to 31st Dec, 19.. .							
£				£			

F.—RESERVED FUND ACCOUNT

FOR THE YEAR ENDING 31ST DECEMBER, 19..

Dr.	£	s	d.	Cr.	£	s.	d.
1. Amount (if any) Carried to Profit and Loss A/c (E) to Make up Deficiencies of Dividends to 31st Dec., 19..				1. By Balance Brought from Last Account			
2. Amount Paid for Extraordinary Claim or Demand (if any)				2. ,, Balance Brought from Profit and Loss A/c (E)			
3. Amount of Balance to be Carried to next Account				3 ,, Interest on Amount Invested .			
£				£			

Like Accounts must be given for Depreciation Fund for works on Leaseholds (if any).

I.—GENERAL BALANCE SHEET

Dr. As at 31st December, 19.. *Cr.*

	£	s.	d.		£	s	d.
1. To Capital Account— Balance at credit thereof (Account C)				1 By Cash at Bankers . . .			
2. ,, Profit and Loss Account— Balance at credit thereof (Account E)				2 ,, Cash on Deposit or at Interest			
3 ,, Reserved Fund— Balance at credit thereof (Account F)				3. ,, Coals for Stock on hand, 31st Dec , 19..			
4 ,, Depreciation Fund, for Works on Leasehold Lands— Balance at credit thereof (Account F2)				4. ,, Coke and Breeze, 31st Dec , 19..			
5. ,, Unpaid Dividends				5. ,, Tar and other Products, 31st Dec., 19..			
6. ,, Interest Accrued and Unpaid on Mortgages, Bonds, and Debenture Stock, and other Loans, to 31st Dec , 19.. .				6 ,, Sundry Stores, 31st Dec , 19.. .			
7. ,, Sundry Tradesmen and others, for Amount due for Coals, Stores, etc , to 31st Dec., 19.. . . .				7 ,, Gas and Meter Rental; Balance of this Account due to the Company on 31st Dec , 19.., *less* Deposits and Prepayments . . .			
8. ,, Wages and Contingencies— Amount due to 31st Dec., 19.. .				8. ,, Coke and other Residual, 31st Dec., 19..			
,, Other Items (if any) . . .				9 ,, Sundry Accounts, 31st Dec., 19..			
				,, Special Items (if any), including Investments			
£				£			

NOTE 1. The Gas Works Clauses Act, 1847, limits the rate of dividend payable by Gas Companies to 10 per cent, prescribes a Reserve Fund up to $\frac{1}{10}$th of the Nominal Capital, and requires a copy of the annual accounts to be sent to the Clerk of the Peace for the county in which the Gas Works are situated

NOTE 2. The Companies Clauses (Consolidation) Act, 1845, provides for the formation of Insurance and Reserve Funds, and introduces a sliding scale under which shareholders become entitled to larger dividends, whenever the price of gas is reduced below the standard price.

(2) ELECTRIC LIGHT COMPANY

CAPITAL ACCOUNT

Dr. No. III — FOR THE YEAR ENDING 31ST DECEMBER, 19.. — *Cr.*

	Expenditure up to 31st Dec. 19..	Expended during the Year	Total Expenditure to 31st Dec., 19 .		Receipts up to 31st Dec, 19..	Received during Year	Total Receipts to 31st Dec., 19..
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
To Expenditure to 31st December, 19..				By Ordinary Shares of £			
Expenditure since that date				,, Ordinary Shares of £			
1. To Lands, including Law Charges Incidental to Acquisition				,, Preference Shares of £			
2. ,, Buildings				,, Debenture Stock			
3. ,, Machinery				,, Mortgages and Bonds			
4 ,, Accumulators at Generating and Distributing Stations				,, Amounts Received in Anticipation of Calls			
5. ,, Mains, including Cost of Laying the Mains				,, Sale of Patents or Patent Rights, etc.			
6. ,, Transformers, Motors, etc				,, Other Receipts (to be specified)			
7. ,, Meters and Fees for Certifying under the Act							
8. ,, Electrical Instruments, etc							
9. ,, General Stores (Cable, Mains, Lamps)							
10. ,, Purchase of Patents or Patent Rights							
11. ,, Cost of Licence, Provisional Order, etc.							
12. ,, Special Items							
Total Expenditure							
To Balance of Capital Account							
		£				£	

Provision for depreciation of works is made by a debit of £ to Revenue Account transferred to Depreciation Fund Account, No. VII.

Dr. No. V — NET REVENUE ACCOUNT — *Cr.*

	£ s. d.		£ s. d.	£ s. d.	£ s. d.
1. To Interest on Debentures accrued due to date		1 By Balance from last Account			
2. ,, Interest on Mortgages and Bonds accrued due to date		*Less* Dividend Paid			
3. ,, Interest on Temporary Loans accrued due to date		,, Amount carried to Reserve Fund			
4. ,, Dividend on Preference Stocks		2 ,, Balance brought from Revenue Account (No. IV)			
5 ,, Balance applicable to Dividend on Ordinary Stock or Shares		3. ,, Interest on Money at Deposit			
£				£	

Dr. No. VI — RESERVE FUND ACCOUNT — *Cr.*

	£ s. d.		£ s. d.
1. Amount Paid Out for		1. By Balance Brought from Last Account	
2. Amount of Balance to Next Account		2. ,, Amount Brought from Net Revenue Account	
		3. ,, Interest on Amount Invested	
		(*Description of Investments to be specified*)	
£		£	

Dr. No. VII DEPRECIATION FUND ACCOUNT *Cr.*

	£	s	d.		£	s.	d
1. To Balance				1. By Balance from Last Account . .			
				2. ,, Interest on Investments . .			
				3. ,, Amount Brought from Revenue Account (see No. IV, H) . .			
				(*Description of Investments to be specified*)			
£				£			

Dr. No. VIII GENERAL BALANCE SHEET *Cr.*

LIABILITIES	£	s	d	ASSETS				£	s.	d.
1. To Capital Account: Amount Received as per Account No. III . .				1 By Capital Account: Amount Expended for Works as per Account No. III						
2. ,, Sundry Tradesmen and others, due on Construction of Plant and Machinery, Fuel, Stores, etc, to 31st Dec, 19..				2. ,, Stores on hand at 31st Dec, 19..	£	s.	d.			
				Coal . . .						
				Oils, Waste, etc .						
				General . .						
3. ,, Sundry Creditors on Open Accounts .				3. ,, Sundry Debtors for Amounts Paid on Account of Contracts in course of Completion						
4 ,, Net Revenue Account: Balance at Credit thereof				4 ,, Preliminary Expenses . . .						
5. ,, Reserve Fund Account: Balance at Credit thereof				5. ,, Sundry Debtors for Current Supplied to 31st Dec, 19.. . . .						
6. ,, Depreciation Fund Account: Balance at Credit thereof				6 ,, Other Debtors						
				7 ,, Cash at Bankers—	£	s	d			
				Messrs .						
				Messrs. .						
				Messrs						
				(Amount on Deposit)						
				8. ,, Cash in hand . .						
£				£						

.... . . Chairman.

....*March*, 19.. . .. . . . .Manager and Secretary.

REVENUE ACCOUNT

Dr. No. IV — FOR THE YEAR ENDING 31ST DECEMBER, 19.. — *Cr.*

Dr.	£	s	d	£	s	d
A.—*To Generation of Electricity*						
1. To Coals or other Fuel, including Dues, Carriage, Unloading, Storing and all Expenses of placing the same on the Works						
2. „ Oil, Waste, Water and Engine-room Stores						
3. „ Proportion of Salaries of Engineers, Superintendents, and Officers, as Certified by the Managing Director, Chairman or Engineer						
4. „ Wages and Gratuities at Generating Stations						
5. „ Repairs and Maintenance as follows— (£ s d)						
1 Buildings						
2. Engines, Boilers						
3 Dynamos, Exciters, Transformers, Motors, etc						
4. Other Machinery, Instruments, and Tools						
5. Accumulators and Accessories						
Less Received for Old Material						
6. „ Special Items						
B.—*To Distribution of Electricity*						
1. To Proportion of Salaries of Superintendents and Officers, as Certified by Managing Director, Chairman or Engineer						
2 „ Wages and Gratuities to Linesmen, Fitters, Labourers						
3. „ Repairs, Maintenance and Renewals of Mains of all classes, including Materials and Laying the same (£ s. d)						
Less Amounts Refunded						
4 „ Repairs, Maintenance and Renewals of Transformers, Meters, Switches, Fuses and other Apparatus on Consumers' Premises						
5. „ Repairs, Maintenance and Renewals of Apparatus at Distributing Stations						
C.—*To Public Lamps*						
1. To Attending and Repairs						
2. „ Renewals of Lamps						
D.—*To Royalties, etc*						
To Royalties, etc, Payable for Use of Patents or Patent Processes						
E.—*To Rents, Rates, and Taxes*						
1. To Rents Payable						
2. „ Rates and Taxes						
F.—*To Management Expenses*						
1. To Directors' Remuneration						
2. „ Salaries of Managing Engineers, Secretary, Accountants, Clerks, Messengers as Certified by Managing Director, Chairman or Engineer						
3. „ Salaries or Commissions of Collectors						
4. „ Stationery and Printing						
5 „ General Establishment Charges						
6. „ Auditors of Company						
7. „ Auditor Appointed under the Provisions of the Order						
G.—*To Law and Parliamentary Charges*						
1. To Law Expenses						
H.—*To Depreciation*						
1. To Depreciation in respect of Leasehold Works						
2. „ Depreciation in respect of Buildings						
3. „ Depreciation in respect of Plant, Machinery, etc.						
I.—*To Special Charges*						
To Insurances, Superannuation, etc.						
„ Expenses for Certification of Meters						
Total Expenditure						
Balance carried to Net Revenue						
			£			

Cr.	£	s	d	£	s	d.
1. By Sale of Current per Meter at per B T U.						
2 „ Sale under Contracts						
3. „ Public Lighting						
4 „ Rental of Meters and other Apparatus on Consumers' Premises						
5 „ Sale and Repairs of Lamps, Arc or Incandescent						
„ Sale and Repairs of other Apparatus						
6 „ Royalties, Licences, etc						
7. „ Rents Receivable						
8 „ Transfer Fees						
9 „ Other Items (to be specified)						
			£			

(3) RAILWAY COMPANY

Dr No 4.—RECEIPTS AND EXPENDITURE ON CAPITAL ACCOUNT *Cr*

To Expenditure	Amount Expended to —			Amount Expended during Year, as per No. 5			Total		
	£	s	d	£	s	d	£	s	d
Lines Open for Traffic . . .									
Lines not Open for Traffic—									
New Lines . .									
Widening of Existing Lines									
Lines Leased . .									
Lines Jointly Owned . .									
Lines Jointly Leased .									
Rolling Stock . .									
Manufacturing and Repairing Works and Plant—									
Land and Buildings . . .									
Plant and Machinery .									
Total Capital Expended upon Railway . . .									
Horses									
Road Vehicles Employed in the Collection and Delivery of Parcels, Goods, and Passengers—									
1 Goods and Parcels Road Vehicles . . .									
2. Passenger Road Vehicles									
Steamboats									
Canals									
Docks, Harbours, and Wharves .									
Hotels									
Electric Power Stations, etc. . .									
Land, Property, etc., not forming Part of the Railway or Stations—									
(a) Used in Connection wit Railway Working . . .									
(b) Not Used in Connection with Railway Working . .									
Other Industries (to be stated separately) . . .									
Subscriptions to other Companies (for details, see Table No. 4 (a)) . .									
Special Items . . .									
TOTAL EXPENDITURE . .									
To Balance									
TOTAL . . . . £									

By Receipts		Amount Received to—			Amount Received during Year			Total		
		£	s	d	£	s	d	£	s	d.
Shares and Stocks (No 2) . .										
Loans (No 3)										
Debenture Stock (No. 3) . .										
Premiums on Shares and Stocks	£									
Premiums on Debenture Stock										
Total Premiums .										
Discounts on Shares and Stocks										
Discounts on Debenture Stock										
Total Discounts . . .										
Balance of Premiums and Discounts										
TOTAL RECEIPTS .										
By Balance										
TOTAL . . . . £										

No. 8.—REVENUE RECEIPTS AND EXPENDITURE OF THE WHOLE UNDERTAKING

See Statement		Gross Receipts			Expenditure			Net Receipts			Year 19.. Gross Receipts	Year 19.. Expenditure	Year 19.. Net Receipts
		£	s.	d	£	s	d.	£	s	d.	£	£	£
10	Railway												
11	Omnibuses and other Passenger Vehicles, not Running on the Railways . .												
12	Steamboats												
13	Canals												
14	Docks, Harbours, and Wharves . .												
15	Hotels, and Refreshment Rooms and Cars where Catering is Carried on by the Company												
16	Other Separate Businesses Carried on by the Company (in detail) . . .												
	Total . . . . . £												
Miscellaneous Receipts (Net)—													
	Rents from Houses and Lands												
	Rents from Hotels												
	Other Rents, including Lump-sum Tolls												
	Interest and Dividends from Investments in other Companies (in detail)												
Transfer Fees													
	General Interest												
	Special Items												
	Total Net Income . . . . . . £												£

No. 9.—PROPOSED APPROPRIATION OF NET INCOME

							Year 19..
				£	s	d	£
Balance Brought Forward from Last Year's Account							
Net Income (as per Statement No. 8)							
Appropriation from Reserve							
Total . . . . . . £							
	£	s.	d				
Deduct: Interest, Rentals, and other Fixed Charges (to be stated by each Company in Order of Priority)—							
Interest on Superannuation and other Funds							
Rent charges (or Feu Duties) and Annuities							
Chief Rents, Wayleaves, etc., including Lump-sum Tolls							
Interest on Loans							
Interest on Debenture Stocks (details)							
Rent of and Guaranteed Interest on Leased and Worked Lines							
Interest on Lloyd's Bonds							
General Interest							
Special Items (if any)							
Total . . . £							
Balance after Payment of Fixed Charges.							
	£	s.	d.				
Appropriation to Reserve and other Special Purposes—							
(Details)							
Total . . . £							
Dividends on Guaranteed and Preference Stocks—							
(Details)							
Total . . . £							
	£	s	d.				
Balance Available for Dividends on Ordinary Stock—							
(Details)							
Total . . . £							

Dr. No. 18.—GENERAL BALANCE SHEET *Cr.*

	£	s.	d.	£	s	d	Year 19.. £
To Capital Account, Balance at Credit thereof, as per Account No. 4							
,, Amount due to Bankers .							
,, Temporary Loans and Calls Paid in Advance . .							
,, Lloyd's Bonds . . .							
,, Unpaid Interest and Dividends							
,, Interest and Dividends Payable or Accruing and Provided for							
,, Amount due to Railway Companies and Committees .							
,, Amount due to Railway Clearing Houses . . .							
,, Savings Bank . . .							
,, Superannuation and other Provident Funds . . .							
,, Accounts Payable . .							
,, Liabilities Accrued . .							
,, Miscellaneous Accounts . .							
,, Special Items (to be detailed) .							
,, Fire Insurance Fund . .							
Railway . . .							
,, Depreciation Funds—							
Steamboats (including Insurance Fund) . .							
Other Businesses . .							
,, General Reserve Fund . .							
,, Balance Available for Dividends and Reserve as per Account No. 9 .							
,, *Less* Interim Dividends Paid as per Statement No. 9 (*a*) . . .							
£							

	£	s	d	£	s	d	Year 19.. £
By Capital Account, Balance at Debit thereof as per Account No. 4							
,, Cash at Bankers and in hand .							
,, Cash on Deposit at Interest .							
,, Investments in Consols and Government Securities .							
,, Investments in Stocks and Shares held by the Company, not Charged as Capital Expenditure . . .							
,, Investment of Superannuation and other Provident Funds							
,, Stock of Stores and Materials							
,, Outstanding Traffic Accounts							
,, Amount due by Railway Companies and Committees .							
,, Amount due by Railway Clearing Houses . . .							
,, Amount due by Postmaster-General							
,, Accounts Receivable . .							
,, Miscellaneous Accounts .							
,, Suspense Accounts (if any) to be Enumerated . .							
,, Special Items (to be detailed)							
£							

Water Company's Accounts

Although there is no compulsion in the case of Water Companies, their accounts are frequently kept on the Double Account System.

By the Water Works Clauses Act, 1847, a Water Company must not pay a dividend in excess of the prescribed rate, or, if no rate is prescribed, in excess of 10 per cent of the paid-up Capital of the company.

Should the profits of any year be in excess of the prescribed rate, or of the said 10 per cent, the excess may be invested and allowed to accumulate at compound interest to form a Reserve Fund of the prescribed amount, or if no amount is prescribed, until it amounts to a sum equal to one-tenth of the nominal Capital of the undertaking.

As soon as the Fund has reached the prescribed amount, or the one-tenth as the case may be, the interest on the Investments may be applied to the general purposes of the company. The Reserved Fund is to be available to make good any deficiency in any year in the normal rate of dividend, and also to meet any extraordinary claims.

The specimens of a Water Company's Accounts kept on the Double Account method are shown on the next page.

CAPITAL ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

Expenditure	Amount Expended to 30th June, 19..			Amount Expended during Half-year			Total			Receipts	Amount Received to 30th June, 19..			Amount Received during Half-year			Total		
	£	s	d	£	s	d	£	s	d		£	s	d	£	s	d	£	s	d
To Purchase of Lands and Buildings										By "A" Ordinary Stock . .									
,, Construction of Works . .										,, "B" Ordinary Stock .									
,, New Mains and Service Pipes (not in place of old) and Cost of Laying same . . .										,, Preferred Stock . . .									
,, New Meters (not in place of old) and Cost of Fixing . . .										,, Debenture Stock .									
,, Plumbing Plant and Tools .										,, Premiums . . .									
,, Parliamentary Expenses .										,, Amounts Received in Anticipation of Calls . . .									
Balance carried to Balance Sheet																			

REVENUE ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

	£	s.	d.	£	s	d.		£	s	d.	£	s	d.
To Expenses of Working and Maintaining—							By Water Rates . . .						
Pumping Stations . .							,, Meter Rents . . .						
Reservoirs							,, Transfer Fees . . .						
Filters							,, House Services . . .						
,, Repairs and Renewals of Mains													
,, Repairs and Renewals (General) . . .													
,, Meter Expenses and Repairs.													
,, Office Salaries . . .													
,, Office Expenses . . .													
,, Engineering Salaries and Expenses													
,, Printing, Stationery, and Stamps													
,, Law Expenses . . .													
,, Income Tax . . .													
,, Rates and Taxes . .													
,, Auditors' Fees . . .													
,, Directors' Remuneration .													
,, Balance carried down . .													
To Interest on Debenture Stock .							By Balance, 1st Jan., 19.. .						
,, Dividend on Preference Stock							,, Revenue A/c Balance .						
,, Balance (carried to Balance Sheet)							,, Interest on Deposits . .						

GENERAL BALANCE SHEET, AS AT 31ST DECEMBER, 19..

	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
Balance of Capital A/c							Cash at Bank						
Balance of Revenue A/c							Cash in hand						
							Cash on Deposit						
Sundry Accounts due by Company							Stores on Hand—						
Interest Accrued and Unpaid on Debenture Stock							Pipes, Valves, Hydrants, etc.						
							House Stores						
							Water Rates Accrued and Due						
							Sundry Accounts due to Company						

Income and Expenditure Accounts

An Income and Expenditure Account is really only another term for a Profit and Loss Account, and is generally used by *non-trading* concerns, such as clubs, societies, hospitals, charitable institutions, etc., and also by professional men and private individuals.

An Income and Expenditure Account is sometimes confused with a Receipts and Payments Account. There is, however, a distinct difference. A Receipts and Payments Account contains only *part* of the income and expenditure for the current year, namely, that part actually received and paid; but an Income and Expenditure Account will include *all* the income and expenditure for the *current* period, whether received and paid or not.

A Receipts and Payments Account is really a summarized Cash Account, and may contain income and expenditure for the *previous* year, the *current* year, and even the *succeeding* year. Further, the balance of a Receipts and Payments Account will denote simply the cash in hand at the end of the given period, but the balance of the Income and Expenditure Account will signify the surplus, or deficit, for the year's working.

Some of the published "Income and Expenditure Accounts" start with the balance brought forward from the previous year, and show "Income" on the Dr. side, and "Expenditure" on the Cr. side. These, of course, are really "Receipts and Payments Accounts." In some cases, similar statements of receipts and expenditure are even called "Balance Sheets." Such nomenclature is quite inaccurate and very misleading.

The following example will serve as a model of the kind of account explained in the first paragraph.

Worked Example

From the following particulars of the "Burntwood" Club, it is desired to prepare Income and Expenditure Account and Balance Sheet for the year ending 31st December, 19..—

	£	s.	d.
Annual Subscriptions	728	10	6
Entrance Fees	216	10	6
Sale of Tickets for Entertainments	174	12	6
Dividends on National War Loan	50	–	–
Printing, Stationery, and Stamps	427	11	8
Honorarium to Secretary	150	–	–
Repairs, Cleaning, and Washing	126	11	7
Cost of Entertainments	70	18	2
Sale of Tickets for Annual Dinner	112	15	6
Newspapers and Magazines	58	12	4
Hire of Hall (*Cr.* Balance)	182	4	6
Profit on Sale of Wines and Spirits, Beer, Minerals, Cigars, Cigarettes, and Tobacco	117	15	3
Rent, Rates, and Taxes	156	11	6
Salaries of Staff	258	16	4
Interest on Bank Deposit	18	–	–
Cost of Annual Dinner	68	16	8
Gas and Electric Light	79	11	6
Receipts from Billiard Rooms	215	10	8
Auditor's Fee	30	–	–
Cash in hand	38	11	6
Cash at Bank	214	10	4
Cash on Deposit at 3 per cent	600	–	–
Sundry Creditors	169	17	10
£1,000—5 per cent National War Loan	1,022	–	–
Capital Account as per last Balance Sheet	2,753	5	6
Library Books, 1st Jan., 19..	275	12	8
Furniture, Fixtures, and Fittings, 1st Jan., 19..	566	10	3
Glass, Cutlery, China, House and Table Linen, 1st Jan., 19..	378	16	6
Stock of Stationery, 31st Dec., 19..	58	16	4
Stock of Wines, Spirits, Beer, Minerals, Cigars, Cigarettes, and Tobacco, 31st Dec., 19..	215	11	9

Of the subscriptions £20 10s. 6d. is paid in advance; there is also £25 5s. 6d. in arrear. Depreciation is to be written off Library Books, Furniture, Glass, Cutlery, etc., at 10 per cent per annum.

THE "BURNTWOOD" CLUB

INCOME AND EXPENDITURE ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

EXPENDITURE	£	s.	d.	£	s.	d.	INCOME	£	s.	d	£	s.	d.
To Printing, Stationery, and Stamps	427	11	8				By Annual Subscriptions	728	10	6			
Less Stock c/f	58	16	4				*Add* Amount due	25	5	6			
				368	15	4		753	16	–			
,, Salaries of Staff				258	16	4	*Less* Paid in Advance	20	10	6	733	5	6
,, Repairs, Cleaning, and Washing				126	11	7	,, Entrance Fees				216	10	6
,, Cost of Entertainments				70	18	2	,, Sale of Tickets for Entertainments				174	12	6
,, Rent, Rates, and Taxes				156	11	6	,, Hire of Hall				182	4	6
,, Honorarium to Secretary				150	–	–	,, Interest on Bank Deposit				18	–	–
,, Cost of Annual Dinner				68	16	8	,, Dividends on War Loan				50	–	–
,, Gas and Electric Light				79	11	6	,, Sale of Tickets for Annual Dinner				112	15	6
,, Newspapers and Magazines				58	12	4	,, Receipts from Billiard Rooms				215	10	8
,, Depreciation—							,, Profit from Sale of Wines, Spirits, Beer, Minerals, Cigars, Cigarettes, and Tobacco				117	15	3
Library Books	27	11	3										
Furniture, etc.	56	13	–										
Glass, Cutlery, etc.	37	17	8	122	1	11							
,, Auditor's Fee				30	–	–							
,, Balance (Surplus of Income over Expenditure for the Year)				329	19	1							
				£1,820	14	5					£1,820	14	5

THE "BURNTWOOD" CLUB

BALANCE SHEET, AS AT 31ST DECEMBER, 19..

LIABILITIES	£	s.	d.	£	s.	d.	ASSETS	£	s.	d.	£	s.	d.
Sundry Creditors				169	17	10	Cash in hand	38	11	6			
Subscriptions Paid in Advance				20	10	6	Cash at Bank	214	10	4	253	1	10
Capital Account—							Cash on Deposit				600	–	–
Balance, 1st Jan.	2,753	5	6				£1,000—5% National War Loan				1,022	–	–
Add Surplus for Year, as per Income and Expenditure Account	329	19	1	3,083	4	7	Outstanding Subscriptions				25	5	6
							Library Books	275	12	8			
							Less Depreciation	27	11	3	248	1	5
							Furniture, Fixtures, and Fittings	566	10	3			
							Less Depreciation	56	13	–	509	17	3
							Glass, China, Cutlery, House and Table Linen	378	16	6			
							Less Depreciation	37	17	8	340	18	10
							Stock of Stationery				58	16	4
							Stock of Wines, Spirits, Beer, Minerals, Cigars, and Tobacco				215	11	9
				£3,273	12	11					£3,273	12	11

CHAPTER XXXVIII

HIRE-PURCHASE SYSTEM AND INSTALMENT-PAYMENT PURCHASES

"PUT our machine on your wage sheet" is the advertisement of one firm who manufacture a useful office appliance.

The argument, duly elaborated, is that the article in question is able to do work worth ten shillings a week of the wages of each of several clerks.

The advertisement is an indication of a theory that is taking hold of the public imagination at a rapidly increasing rate. It is that all those useful necessary, or enjoyable appliances and commodities that we usually think of as "possessions" or "capital," may also be regarded as weekly or monthly "expenses," during the first period, at all events, of their use and enjoyment.

The fact has long been recognized in certain kinds of business. Buying a house or a piano out of hire was an act of our grandfathers; fitting out a printing works on hire purchase was done in the mid-Victorian era.

But the development of the day carries the principle into almost every kind of trade, and affects persons in almost every station of life.

A man who would once have scorned to buy a piano on the hire-purchase system now appears to modify his view when he wishes to possess a powerful touring car; a citizen who has just cleared the mortgage on his house now considers, with serenity, refurnishing it on a spread payment system.

One great incentive is the influence of the advertiser. A great number of business firms realize that by solving the problem of selling upon the method of deferred payment, they can materially increase their sales.

It is not always easy for them to arrange to do this, in the first place, but once they are able to do so the trade becomes a kind of natural snowball increasing by its one rolling, and making every firm that adopts it a powerful and persistent advocate of the method.

The Principle in America

In the United States the principle has taken a deeper hold upon the popular mind than appears to be the case in our own land. In fact, so enormous is the volume of trade carried on on this principle that it is boldly declared that it represents the larger half of all the business of the United States.

It is a remarkable fact arising from this condition of things, that many statesmen and economists trace an intimate connection between the abounding prosperity of America and the great increase in this kind of trading.

This development is having its effects upon business in a great many departments, and in consequence it is important for the office worker to appreciate some of the many features of trade that are effected.

The office worker should also appreciate the problems of the trade as seen from the private office and the administrative office.

Financial Aspect

There is the difficulty of finance.

The firm in good standing may be prepared to give two or three months' credit. Suddenly to be obliged to sell upon a method that locks up capital for months, or even years, may constitute a strain that should not be lightly undertaken.

There are various ways by which the problem is solved. Some firms will not deal in goods in which more than a few months is necessary to clear the purchaser's liability. Others make special arrangements with supplying houses by which they act more as agents than as merchants.

Again, the needs of the case have brought into being a new kind of commercial financier. As this is in a more or less experimental stage it is wise, in describing it, not to present it as too definitely a feature that will be permanent.

We take a specific case. A certain firm gets into touch with a retail trader, and states—

"You may sell any goods you like from your shop of a value of £5 to £20 to any customer who will pay 10 per cent more on the hire-purchase system. We will immediately buy the debt from you and take all responsibility if you give us a discount of 10 per cent."

Thus a £10 article is sold on eleven monthly payments of £1 each. The retailer receives £9 cash.

The difference of £2 constitutes the cost of

capital interest, expenses of collection, and risk of bad debts and profit.

In other cases traders are feeling their way into the system gradually, allowing the spread-payment part of their turnover to grow as rapidly as the capital in the business permits; and keeping it, as far as they can, in orderly proportion with the rest of the business.

The subject of risk is interesting, and probably one of the most remarkable testimonials to British integrity lies in the fact that many spread-payment firms declare that their losses through bad debts are a very small percentage on the turnover.

Slow payments are often a difficulty. But against these there appears to be a habit with some buyers of clearing off the last few payments in a lump sum before they are due.

Many traders say that such is the habit of human nature, that many buyers when they have once got upon a firm's books, seem to feel impelled to enter upon a new transaction as soon as the old one is in measurable sight of conclusion.

This new class of business has had some undesirable consequences, as may be expected in such circumstances.

The fact that at the commencement of a new plan, or at a time when it receives a fresh impetus, everyone appears to start with a clean slate, and the newcomer feels he is at as much advantage as the established trader; there is often a tendency for inexperienced persons with or without capital to enter the lists.

As will be seen by the way in which the two subjects are divided, hire purchase and instalment-payment purchase are entirely different things coming under distinctly different laws, and implying obligations of a widely different nature.

This is important to realize, as there have been many cases where large sums of money have been lost through the failure to realize the fact.

Selling goods to be paid for by instalments means that when the goods are delivered they cease to be the property of the supplying firm. In case the customer fails, he cannot claim those goods. He can only claim payment for them, and in case of failure his claim ranks with the claims of others.

Hire-Purchase

The hire-purchase system is a system by means of which money is paid for goods in agreed periodical instalments, with the ultimate object of the purchase and ownership of such goods

Under this system, the legal ownership of the goods does not vest in the purchaser until the final instalment has been paid.

All money being paid in the meantime is therefore regarded as payment for *hire*; and the goods become the absolute property of the buyer only when all the instalments have been paid. Should default be made in the payment of the instalments, the vendor can demand the return of the goods, and can retake possession of them. The difference between the hire-purchase system and instalment-payment purchases is explained later, and should be carefully noted.

Entries in the Buyer's Books

Where payment of the value of goods is to be made over a lengthy period, such payment will naturally include a charge for interest. The total of the instalments, it will be found, is more or less the cash value of the goods, plus interest on the balance of the purchase money from time to time unpaid.

In the buyer's books, therefore, no entry will be made until the first instalment is paid. This will then have to be allocated between capital and revenue.

The cash value of the articles must be ascertained, and also the rate of interest being charged for hire. Interest on the cash value, or the unpaid portion of it, must be worked out every time an instalment is paid. The amount of interest will be the proportion of the instalment chargeable to revenue, i.e. the amount to debit to Profit and Loss Account as the charge for hire; and the balance of the instalment will represent the proportion to charge to capital, i.e. the amount to debit to an Asset Account.

Treatment of Depreciation

The question of depreciation has evoked some criticism and controversy. There are accountants who maintain that it is quite wrong to take depreciation into account at all; that it is an error of principle to depreciate, in our books, goods which, being other people's property, do not belong to us.

The answer to this is, that these payments are being made with the intention that such goods *shall* belong to us, eventually at any rate.

A further answer to this is, that if we do not depreciate such goods, they will appear in our books, when all the payments have been made,

at cost price, and they will have been in use some three, four, or five years. This is obviously an error of principle.

The object of writing depreciation off the cash value of the asset, therefore, is that the asset shall appear in the books at the end of the purchasing period, at its *then* value. Any repairs or renewals that become necessary will, of course, be charged to Profit and Loss Account in the usual way.

Worked Example

A colliery company purchases wagons on the hire-purchase system over a period of five years, payable by annual instalments of £550. The wagon company charge interest at the rate of 5 per cent per annum on the yearly balances.

It is desired to record the above transaction in the books of (1) the buyer, (2) the seller. Depreciation to be reckoned at 10 per cent per annum.

The cash value of the wagons may be taken to be the present value of an annuity of £550 for five years at 5 per cent per annum interest. Reference to the table gives us the value of an annuity of £1 for five years at 5 per cent as £4·329477, and this figure multiplied by 550 gives us £2,381·212, or £2,381 4s. 3d., as the cash value of the wagons.

In Buyer's Books

JOURNAL

Year		Dr. £	s	d.	Cr. £	s.	d.
1	Wagon Account	430	18	9			
	Wagon Hire Account (5% on £2,381 4s. 3d.)	119	1	3			
	To Wagon Company				550	–	–
2	Wagon Account	452	9	9			
	Wagon Hire Account (5% on £1,950 5s. 6d.)	97	10	3			
	To Wagon Company				550	–	–
3	Wagon Account	475	2	3			
	Wagon Hire Account (5% on £1,497 15s. 9d.)	74	17	9			
	To Wagon Company				550	–	–
4	Wagon Account	498	17	4			
	Wagon Hire Account (5% on £1,022 13s. 6d)	51	2	8			
	To Wagon Company				550	–	–
5	Wagon Account	523	16	2			
	Wagon Hire Account (5% on £523 16s. 2d.)	26	3	10			
	To Wagon Company				550	–	–

Dr. WAGON HIRE ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d
1	To Wagon Co.	119	1	3	1	By Profit and Loss A/c	119	1	3
2	To Wagon Co.	97	10	3	2	By Profit and Loss A/c	97	10	3
3	To Wagon Co.	74	17	9	3	By Profit and Loss A/c	74	17	9
4	To Wagon Co.	51	2	8	4	By Profit and Loss A/c	51	2	8
5	To Wagon Co.	26	3	10	5	By Profit and Loss A/c	26	3	10

LEDGER

WAGON ACCOUNT

Dr. | | | | | | | | | *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Wagon Co.	430	18	9	1	By Depreciation— 10% on £2,381 4s. 3d.	238	2	5
						,, Balance c/d	192	16	4
		£430	18	9			£430	18	9
2	To Balance b/d	192	16	4	2	By Depreciation— 10% on £2,143 1s. 10d.	214	6	2
	,, Wagon Co.	452	9	9		,, Balance c/d	430	19	11
		£645	6	1			£645	6	1
3	To Balance b/d	430	19	11	3	By Depreciation— 10% on £1,928 15s. 8d.	192	17	7
	,, Wagon Co.	475	2	3		,, Balance c/d	713	4	7
		£906	2	2			£906	2	2
4	To Balance b/d	713	4	7	4	By Depreciation— 10% on £1,735 18s. 1d.	173	11	10
	,, Wagon Co.	498	17	4		,, Balance c/d	1,038	10	1
		£1,212	1	11			£1,212	1	11
5	To Balance b/d	1,038	10	1	5	By Depreciation— 10% on £1,562 6s. 3d.	156	4	7
	,, Wagon Co.	523	16	2		,, Balance c/d	1,406	1	8
		£1,562	6	3			£1,562	6	3
6	To Balance b/d	1,406	1	8					

WAGON COMPANY

Dr. | | | | | | | | | *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash	550	–	–	1	By Sundries	550	–	–
2	To Cash	550	–	–	2	By Sundries	550	–	–
3	To Cash	550	–	–	3	By Sundries	550	–	–
4	To Cash	550	–	–	4	By Sundries	550	–	–
5	To Cash	550	–	–	5	By Sundries	550	–	–

The value of the wagons is exactly the same, at the end of the fifth year, as if we had paid cash for them and depreciated them annually in the usual way. This is easily seen from the following account—

Dr. WAGON ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash	2,381	4	3	1	By Depreciation	238	2	5
						,, Balance c/d	2,143	1	10
		£2,381	4	3			£2,381	4	3
2	To Balance b/d	2,143	1	10	2	By Depreciation	214	6	2
						,, Balance c/d	1,928	15	8
		£2,143	1	10			£2,143	1	10
3	To Balance b/d	1,928	15	8	3	By Depreciation	192	17	7
						,, Balance c/d	1,735	18	1
		£1,928	15	8			£1,928	15	8
4	To Balance b/d	1,735	18	1	4	By Depreciation	173	11	10
						,, Balance c/d	1,562	6	3
		£1,735	18	1			£1,735	18	1
5	To Balance b/d	1,562	6	3	5	By Depreciation	156	4	7
						,, Balance c/d	1,406	1	8
		£1,562	6	3			£1,562	6	3
6	To Balance b/d	1,406	1	8					

In some cases, the seller requires the first instalment to be paid when signing the agreement. This will, of course, affect the calculations, as there will be one less instalment of interest.

In Seller's Books

In the seller's books the items will be entered at their cash value in a special Hire-purchase Day Book. From this they will be posted to the debit of the purchaser's account in the Ledger; and periodically the total of the Day Book will be posted to the credit of a Hire-purchase Sales Account.

As each instalment falls due, the customer's account, or the unpaid balance of it, will be debited with interest, which will be credited to a Hire-purchase Interest Account, and carried eventually to Profit and Loss Account as a profit. As, however, the goods are not yet the actual property of the buyer, and may be returned, it may be necessary to make a reserve to cover any possible loss through such circumstances arising.

The following are the Ledger Accounts concerned—

Dr. COLLIERY COMPANY *Cr.*

Year		£	s	d.	Year		£	s.	d.
1	To Hire-purchase Sales A/c	2,381	4	3	1	By Cash	550	–	–
	,, Interest, 5%	119	1	3		,, Balance c/d	1,950	5	6
		£2,500	5	6			£2,500	5	6
2	To Balance b/d	1,950	5	6	2	By Cash	550	–	–
	,, Interest, 5%	97	10	3		,, Balance c/d	1,497	15	9
		£2,047	15	9			£2,047	15	9
3	To Balance b/d	1,497	15	9	3	By Cash	550	–	–
	,, Interest 5%	74	17	9		,, Balance c/d	1,022	13	6
		£1,572	13	6			£1,572	13	6
4	To Balance b/d	1,022	13	6	4	By Cash	550	–	–
	,, Interest, 5%	51	2	8		,, Balance c/d	523	16	2
		£1,073	16	2			£1,073	16	2
5	To Balance b/d	523	16	2	5	By Cash	550	–	–
	,, Interest, 5%	26	3	10					
		£550	–	–			£550	–	–

Dr. HIRE-PURCHASE INTEREST *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Profit and Loss A/c	119	1	3	1	By Colliery Co.	119	1	3
2	To Profit and Loss A/c	97	10	3	2	By Colliery Co.	97	10	3
3	To Profit and Loss A/c	74	17	9	3	By Colliery Co.	74	17	9
4	To Profit and Loss A/c	51	2	8	4	By Colliery Co.	51	2	8
5	To Profit and Loss A/c	26	3	10	5	By Colliery Co.	26	3	10

Alternative Method of Dealing with Small Hire-Purchase Accounts

Where numerous articles of much smaller value are being sold on the hire-purchase system, a simpler method of book-keeping is adopted, as the foregoing way is rather too elaborate.

All hire-purchase sales are entered, both at cost and selling price, into a Hire-purchase Day Book, and from thence posted to the debit of customers' accounts in a Hire-purchase Ledger, which, however, is only a *memorandum* Ledger. Each customer is debited at once with the total amount due from him, and credited periodically as the instalments are received. The balance of the account at any time shows the amount still due from the customer.

A Hire-purchase Account is opened in the General Ledger, and debited periodically with the *cost* total of the Hire-purchase Day Book. This total is also credited to an account entitled "Goods on Hire-purchase," the latter account being closed at balancing time to the credit of Trading Account.

At the close of the financial period, the stock in the hire-purchaser's hands is valued at cost, written in on the credit of the Hire-purchase Account, and after ruling off, brought down as a debit balance for the new period. The excess of the credit side of the Hire-purchase Account over the debit side will represent the profit to date on the hire-purchase transactions, and will be transferred in the usual way to the Profit and Loss Account. The following will serve as an illustration—

Dr. HIRE-PURCHASE ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19.. Jan. 1	To Stock in Customers' Hands (at Cost) . . .	2,836	19	4	19.. Dec. 31	By Cash Received from Hire-purchasers during the Year	4,646	11	8
Dec. 31	,, Hire-purchase Sales for Year (at Cost) . .	4,239	5	10	31	,, Stock in Customers' Hands, at Cost (Total of Instalments still due, *less* Proportion of Profit) . .	3,419	7	11
31	,, Balance (Profit to date) Transferred to Profit and Loss A/c . . .	989	14	5					
		£8,065	19	7			£8,065	19	7
19.. Jan. 1	To Stock b/d . . .	3,419	7	11					

The above account, of course, represents the transactions solely from the point of view of the *seller*. The reason is that the persons who buy these small articles, such as sewing machines, pianos, motor-bicycles, furniture, gramophones, wireless sets, etc., probably keep no books at all. Consideration of the accounts from their point of view is therefore unnecessary.

Instalment-Payment Purchases

Under the instalment-payment system of purchase, the property in the goods passes at once to the buyer. He actually *owns* the goods, although payment for them is to be spread over a series of years. If default is made in payment the vendor cannot, as under the hire-purchase system, retake possession of the goods; he can only sue for the balance of the debt. This difference causes a variation in the methods of book-keeping.

Entries in the Books of the Buyer

An Asset Account will be opened in the books and debited with the cash value of the goods; the same amount will also be credited to the account of the vendor, thus completing the double entry. The Vendor's Account will be credited each year, or at whatever other interval of time is arranged, with interest at the agreed rate on the balance outstanding. Such interest will be debited to Interest Account, and finally closed at balancing time to the Profit and Loss Account. As each instalment is paid, Cash Account will be credited and the Vendor's Account debited.

Worked Example

A colliery company purchases on the instalment-payment system a number of coal wagons, the cost to be spread over a period of five years, and to be payable by fixed annual instalments of £550. The cash value of the wagons is £2,381 4s. 3d., and the wagon company charge interest on yearly rests at the rate of 5 per cent per annum.

It is desired to write up the necessary accounts, allowing for depreciation at the rate of 10 per cent per annum, in the books of (*a*) the buyer, (*b*) the seller.

In Buyer's Books

JOURNAL

Year		Dr. £	s	d.	Cr. £	s	d.
1	Wagon Account	2,381	4	3			
	To Wagon Company				2,381	4	3
	For Wagons purchased on the instalment-payment system.						
1	Interest Account	119	1	3			
	To Wagon Company				119	1	3
	For 5 per cent on £2,381 4s. 3d.						

And so on with other years. The Wagon Account will be as under, and the Wagon Company Account as on the next page.

Dr. WAGON ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Wagon Co.	2,381	4	3	1	By Depreciation	238	2	5
						,, Balance c/d	2,143	1	10
		£2,381	4	3			£2,381	4	3
2	To Balance b/d	2,143	1	10	2	By Depreciation	214	6	2
						,, Balance c/d	1,928	15	8
		£2,143	1	10			£2,143	1	10
3	To Balance b/d	1,928	15	8	3	By Depreciation	192	17	7
						,, Balance c/d	1,735	18	1
		£1,928	15	8			£1,928	15	8
4	To Balance b/d	1,735	18	1	4	By Depreciation	173	11	10
						,, Balance c/d	1,562	6	3
		£1,735	18	1			£1,735	18	1
5	To Balance b/d	1,562	6	3	5	By Depreciation	156	4	7
						,, Balance c/d	1,406	1	8
		£1,562	6	3			£1,562	6	3
6	To Balance b/d	1,406	1	8					

In the Seller's Books

An entry will be made, debiting the purchaser, and crediting the Sales Account with the *cash value* of the goods. The purchaser's account will be debited periodically with the interest at the agreed rate. Such interest is also credited to the Interest Account, which is closed at balancing time by transfer to Profit and Loss Account. As each instalment is received, Cash Account will be debited, and the amount posted to the credit of the purchaser's account.

A specimen is given at the foot of page 620.

Dr. WAGON COMPANY *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash	550	–	–	1	By Wagon A/c	2,381	4	3
	,, Balance c/d	1,950	5	6		,, Interest	119	1	3
		£2,500	5	6			£2,500	5	6
2	To Cash	550	–	–	2	By Balance b/d	1,950	5	6
	,, Balance c/d	1,497	15	9		,, Interest	97	10	3
		£2,047	15	9			£2,047	15	9
3	To Cash	550	–	–	3	By Balance b/d	1,497	15	9
	,, Balance c/d	1,022	13	6		,, Interest	74	17	9
		£1,572	13	6			£1,572	13	6
4	To Cash	550	–	–	4	By Balance b/d	1,022	13	6
	,, Balance c/d	523	16	2		,, Interest	51	2	8
		£1,073	16	2			£1,073	16	2
5	To Cash	550	–	–	5	By Balance b/d	523	16	2
						,, Interest	26	3	10
		£550	–	–			£550	–	–

Dr. COLLIERY COMPANY *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Sale of Wagons	2,381	4	3	1	By Cash	550	–	–
	,, Interest	119	1	3		,, Balance c/d	1,950	5	6
		£2,500	5	6			£2,500	5	6
2	To Balance b/d	1,950	5	6	2	By Cash	550	–	–
	,, Interest	97	10	3		,, Balance c/d	1,497	15	9
		£2,047	15	9			£2,047	15	9
3	To Balance b/d	1,497	15	9	3	By Cash	550	–	–
	,, Interest	74	17	9		,, Balance c/d	1,022	13	6
		£1,572	13	6			£1,572	13	6
4	To Balance b/d	1,022	13	6	4	By Cash	550	–	–
	,, Interest	51	2	8		,, Balance c/d	523	16	2
		£1,073	16	2			£1,073	16	2
5	To Balance b/d	523	16	2	5	By Cash	550	–	–
	,, Interest	26	3	10					
		£550	–	–			£550	–	–

Alternative Method

In the purchaser's books, the full amount of the debt payable is credited to the seller. The corresponding debit entry is composed of two parts: the cash value of the goods, which is charged to an Asset Account, and the balance between this amount and the purchase price, which is charged to an Interest Suspense Account.

As each instalment is paid, Cash Account will be credited, and the Seller's Account debited. At balancing time, an appropriate portion of the Interest Suspense Account will be written off to Profit and Loss Account. Thus, by the time all the instalments have been paid, the Interest Suspense Account will be entirely extinguished.

The following are the book entries for the previous example—

In Buyer's Books

JOURNAL

		Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
Year 1	Wagon Account	2,381	4	3			
	Interest Suspense Account	368	15	9			
	To Wagon Company				2,750	–	–
	For wagons purchased on the instalment-payment system.						

The Wagon Account will appear as previously shown, and the other two accounts as under—

Dr. WAGON COMPANY *Cr.*

Year		£	*s.*	*d.*	Year		£	*s.*	*d.*
1	To Cash	550	–	–	1	By Sundries	2,750	–	–
	,, Balance c/d	2,200	–	–					
		£2,750	–	–			£2,750	–	–
2	To Cash	550	–	–	2	By Balance b/d	2,200	–	–
	,, Balance c/d	1,650	–	–					
		£2,200	–	–			£2,200	–	–
3	To Cash	550	–	–	3	By Balance b/d	1,650	–	–
	,, Balance c/d	1,100	–	–					
		£1,650	–	–			£1,650	–	–
4	To Cash	550	–	–	4	By Balance b/d	1,100	–	–
	,, Balance c/d	550	–	–					
		£1,100	–	–			£1,100	–	–
5	To Cash	550	–	–	5	By Balance b/d	550	–	–

Dr. INTEREST SUSPENSE ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Wagon Co	368	15	9	1	By Profit and Loss—			
						5% on £2,381 4s. 3d. . .	119	1	3
						,, Balance c/d	249	14	6
		£368	15	9			£368	15	9
2	To Balance b/d	249	14	6	2	By Profit and Loss—			
						5% on £1,950 5s. 6d. . .	97	10	3
						,, Balance c/d	152	4	3
		£249	14	6			£249	14	6
3	To Balance b/d	152	4	3	3	By Profit and Loss—			
						5% on £1,497 15s. 9d. . .	74	17	9
						,, Balance c/d	77	6	6
		£152	4	3			£152	4	3
4	To Balance b/d	77	6	6	4	By Profit and Loss—			
						5% on £1,022 13s. 6d. . .	51	2	8
						,, Balance c/d	26	3	10
		£77	6	6			£77	6	6
5	To Balance b/d	26	3	10	5	By Profit and Loss—			
						5% on £523 16s. 2d. . .	26	3	10

In Seller's Books

JOURNAL

Year		Dr. £	s.	d.	Cr. £	s.	d.
1	Colliery Company	2,750	–	–			
	To Sales Account				2,381	4	3
	,, Interest Suspense Account				368	15	9
	For Wagons sold on the instalment-payment system.						

LEDGER

COLLIERY COMPANY

Dr. *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Sundries . . .	2,750	–	–	1	By Cash	550	–	–
						,, Balance c/d . . .	2,200	–	–
		£2,750	–	–			£2,750	–	–
2	To Balance b/d . . .	2,200	–	–	2	By Cash	550	–	–
						,, Balance c/d . . .	1,650	–	–
		£2,200	–	–			£2,200	–	–
3	To Balance b/d . . .	1,650	–	–	3	By Cash	550	–	–
						,, Balance c/d . . .	1,100	–	–
		£1,650	–	–			£1,650	–	–
4	To Balance b/d . . .	1,100	–	–	4	By Cash	550	–	–
						,, Balance c/d . .	550	–	–
		£1,100	–	–			£1,100	–	–
5	To Balance b/d . . .	550	–	–	5	By Cash	550	–	–

Dr. INTEREST SUSPENSE ACCOUNT *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Profit and Loss—				1	By Colliery Co.	368	15	9
	5% on £2,381 4s. 3d. . .	119	1	3					
	,, Balance c/d	249	14	6					
		£368	15	9			£368	15	9
2	To Profit and Loss—				2	By Balance b/d	249	14	6
	5% on £1,950 5s. 6d. . .	97	10	3					
	,, Balance c/d	152	4	3					
		£249	14	6			£249	14	6
3	To Profit and Loss—				3	By Balance b/d	152	4	3
	5% on £1,497 15s. 9d. .	74	17	9					
	,, Balance c/d	77	6	6					
		£152	4	3			£152	4	3
4	To Profit and Loss—				4	By Balance b/d	77	6	6
	5% on £1,022 13s. 6d.	51	2	8					
	,, Balance c/d . . .	26	3	10					
		£77	6	6			£77	6	6
5	To Profit and Loss—								
	5% on £523 16s. 2d. .	26	3	10	5	By Balance b/d	26	3	10

The following table shows at a glance the amount of interest payable, and also the balance of principal at the end of each year—

Year	Amount of Principal			Annual Interest at 5%			Total			Instalment Payable			Balance of Principal		
	£	s	d	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
1	2,381	4	3	119	1	3	2,500	5	6	550	–	–	1,950	5	6
2	1,950	5	6	97	10	3	2,047	15	9	550	–	–	1,497	15	9
3	1,497	15	9	74	17	9	1,572	13	6	550	–	–	1,022	13	6
4	1,022	13	6	51	2	8	1,073	16	2	550	–	–	523	16	2
5	523	16	2	26	3	10	550	–	–	550	–	–			
				£368	15	9				£2,750	–	–			

CHAPTER XXXIX

BANKRUPTCY ACCOUNTS

When a trader or a firm gets into difficulties and is unable to satisfy the claims of creditors, it is usual for some arrangement to be made that shall enable the business to be closed or to be carried on in a different way.

Many of the methods can be described as "acts of failure," while others may escape from the description by being called "reconstructions" or "re-arrangements of capital."

Of all methods that are adopted in commerce the one that is regarded with the least satisfaction is Bankruptcy, in the most legal meaning of the word.

The receipt by a business man of an official intimation that a customer has protected himself under the Bankruptcy Acts, usually causes him to lose any further interest in the matter. Very often, when the trader or firm that has thus acted has any kind of business representing a turnover, the creditor may feel deeper resentment at the method of making the failure than at the failure itself.

Though, to become a bankrupt, may be the best method for a private person to adopt when he cannot pay his debts or see any prospect of doing so, in business it is usually held to be a courtesy due to the creditors to give them the chance of deciding how the debts shall be dealt with, and also how any goodwill the business may possess can be protected.

The ordinary procedure of bankruptcy does not prevent this, but the case is more difficult, and business men rarely like to interfere once this official step has been taken.

Take them as a whole, business men are not vindictive. Their attitude to a debtor is very often, "Well, we lose money any way, but we had rather that the money did *you* some good than that it helped no one."

Commerce calls out a great many different qualities and emotions, but it is noticeable that in cases of sheer misfortune there is usually not only pity for the man who has come to grief, but willingness to help him on his feet again, if possible.

This is done in many ways, and everyone in business who comes to a period of great difficulty, which may result in failure, is wise to consider some of these.

This consideration should be timely, as very often the reason why a man must become a bankrupt is that he has let his affairs drift into such a state, that he is obliged to act quickly, and only the immediate protection of the Bankruptcy Acts can save his remaining assets from seizure.

There is a certain element of risk in the unofficial overture. There have been cases where a trader has used such knowledge for the protection of his own account, and issued a writ. But such cases are few.

It has more than once happened that supplying houses, in such a case, have come to the rescue, and allowed a limited company to be formed, and have taken up their own debts in debentures.

The usual objection to debentures in such a case as this would scarcely apply, as the object of forming the company would be to make it unnecessary for the trader to change his old method of paying promptly. Though it is a disadvantage for a firm to have issued debentures, the objection scarcely balances the advantage to be gained in such circumstances.

This method of dealing with difficulties in a sound business suddenly embarrassed with an unusual loss, has, of course, no parallel in the case of the business in which the shortage is an actual loss on trading.

The man whose books show that for three or four years there has been a constant diminution of profits or increase of loss, has a far more difficult case to lay before any creditor.

If the loss arises from such a fault as drawing a higher management salary than is justified (and in many such cases this is the real cause of difficulty), then the position may not be impossible.

A man whose business shows profits, not reckoning his own drawings, of £400, £300, and £180 on three consecutive years, and who has drawn against those profits £1,000 a year, may gain the assistance of his creditors, but he would stand little chance of their approval were he to take out so large a sum as he had been drawing.

The continual diminution of profit or increase of loss always raises the question, "Is the business worth saving?"

The man who has shown, through several years, that he can only trade by losing money, has not only a problem of his own, but may cause other problems to his competitors. "Buying and selling and living on the loss" is often a result of cutting prices in the unfair way that tempts other traders to follow up to the limit of safety and even beyond it.

Private Arrangements

Where a business is being carried on, no matter how awkwardly, it is impossible to keep the condition of the Bought Ledger unchanged. Some creditors will receive payment, while from others more goods will be obtained.

The moment a man is aware that sooner or later he must meet his creditors, he breaks the law by every one of the changes that are made in the relative sizes of his creditors' accounts; he unduly prefers some by payment and improperly increases his debts to others by purchases.

In consequence, swift action is the only honourable course.

Where the accounts are few, or where the principal debts are due to a very few firms, it is a good plan to consult the chief creditors, even if an overture toward forming a company has been declined. The fact that they express willingness to accept a possible offer of a composition is a great help toward further action.

Sometimes, too, a creditor may know of some person who will pay down a lump sum of money for the business, or even for part of it, and that sum might be sufficient to form a dividend for immediate payment of 5s. or 10s. or more in the pound.

Some time ago at a creditors' meeting, the accountant who had called the creditors together followed his explanation of the state of affairs with a curious suggestion.

"Gentlemen, you have come here as unfortunate sellers. You have sold your goods and you won't get all the money. Forget you are sellers and try to think of yourselves as buyers. Here is a business that has taken a man's life work to create, going for a few shillings in the pound."

And in that room the business was sold to a creditor on the condition that he should pay the other creditors an agreed dividend, and the whole affair practically settled. The old proprietor was to retain an interest, and the business to start with a clean sheet.

Sometimes, where it is possible for the business to be continued, the debtor is able to induce his creditors to agree to accept a composition payable in instalments spread over a number of months or longer. Usually, such an offer of one instalment would be payable at once, and others at later periods.

Procedure Relating to Private Arrangements

The first intimation of a proposed private arrangement usually reaches the ordinary creditor through the post. The debtor puts his affairs into the hands of a solicitor or accountant who acts for him.

Where the debtor has discussed the subject with one or two of his creditors, the selection of the solicitor or accountant and the form of proposal may result from their advice.

Or it may be that the debtor can see no advantage in consulting any of his creditors in an unofficial way, and lays the case before a solicitor or accountant without more ado.

In this case the official acts for him by inviting the creditors to attend a meeting to discuss the position.

At this meeting the financial circumstances are explained, and the debtor's lawyer or accountant tries to obtain as good terms as possible for his client.

These terms are embodied in a Deed of Arrangement. This can take the form of an agreement, on the debtor's part, to pay a composition; and on the creditors' part to accept the composition in full settlement of the debt, or it can be an agreement of both to the property of the debtor being assigned to a third party for the benefit of the creditors.

The first of these is called a deed of composition, and the second a deed of assignment.

The deed of composition is usually agreed to in those cases where the debtor is to be allowed to retain the business. In effect it means that the creditors allow him to cancel a large proportion of the debts, so as to finance his business more easily and profitably.

The deed of assignment may be used where the business is worth continuing, but a different method of management may seem desirable. The debtor here may lose the business, or he may be allowed to act as the manager on behalf of the creditor on agreed terms, till he can find some person who will purchase it or its remains for him.

Such a document binds only those who sign it, and it is the right of any creditor with an account of £50 or over to make the debtor a bankrupt;

of two or more creditors can unite in this action. But they must act within three months of the execution of the deed.

In case a debtor is made a bankrupt after such a deed has been signed, the deed becomes abortive, and those who have signed it are free to benefit in the same way as the creditors who have not.

Bankruptcy Proceedings

Bankruptcy proceedings are governed by the Bankruptcy Act, 1914, which is a consolidation of the Bankruptcy Acts, 1883, and 1890, and of the bankruptcy part of the Bankruptcy and Deeds of Arrangement Act, 1913.

The object of these laws is to extricate a debtor, who has become hopelessly involved in financial difficulties, by distributing his estate equitably among his creditors, and releasing him from further liability in respect of his past debts.

Courts of Bankruptcy

Proceedings in bankruptcy must be commenced in a *County Court* in the district in which the debtor has resided or carried on business for the longest period during the six months preceding the bankruptcy. Not only so, but the County Court must be one of those that have had bankruptcy jurisdiction conferred upon them.

If the debtor is resident in the Metropolitan district, or abroad, or if his residence is unknown, then proceedings may be taken in the High Court. The Board of Trade has important powers in controlling and supervising bankruptcy proceedings.

Persons who May be Made Bankrupt

Any person who has the capacity to contract may be made a bankrupt, but an infant cannot be made a bankrupt. A married woman who carries on a trade or business can now be made bankrupt, whether she is carrying on business separately from her husband or not.

Partnerships, and also limited partnerships, can be made bankrupt, but companies registered under the Companies Acts, 1908 to 1928, cannot be made bankrupt; they must be wound up. A deceased debtor cannot be made bankrupt, but his estate may be administered in bankruptcy.

Acts of Bankruptcy

Bankruptcy proceedings are commenced by the presentation of a petition for a Receiving Order to be made against the debtor. An Act of Bankruptcy is an act or default on the part of a debtor deemed to be evidence of his insolvency, and one which enables a creditor to present a petition against him in the Bankruptcy Court. By Section 1 of the Act, a debtor commits an Act of Bankruptcy in each of the following cases—

" (*a*) If in England or elsewhere he makes a conveyance or assignment of his property to a trustee or trustees for the benefit of his creditors generally;

" (*b*) If in England or elsewhere he makes a fraudulent conveyance, gift, delivery, or transfer of his property, or any part thereof;

" (*c*) If in England or elsewhere he makes any conveyance or transfer of his property, or any part thereof, or creates any charge thereon, which would under this or any other Act be void as a fraudulent preference if he were adjudged bankrupt;

" (*d*) If with intent to defeat or delay his creditors he does any of the following things, namely, departs out of England, or being out of England remains out of England, or departs from his dwelling-house, or otherwise absents himself, or begins to keep house;

" (*e*) If execution against him has been levied by seizure of his goods under process in any action in any Court, or in any civil proceeding in the High Court, and the goods have been either sold or held by the sheriff for twenty-one days;

" (*f*) If he files in the Court a declaration of his inability to pay his debts, or presents a bankruptcy petition against himself;

" (*g*) If a creditor has obtained a final judgment or final order against him for any amount, and, execution thereon not having been stayed, has served on him in England, or, by leave of the Court, elsewhere, a bankruptcy notice under this Act, and he does not, within seven days after service of the notice in case the service is effected in England, and in case the service is effected elsewhere, then within the time limited in that behalf by the order giving leave to effect the service, either comply with the requirement of the notice or satisfy the Court that he has a counterclaim, set-off, or cross demand which equals or exceeds the amount of the judgment debt or sum ordered to be paid, and which he could not set up in the action in which the judgment was obtained, or the proceedings in which the order was obtained;

" (*h*) If the debtor gives notice to any of his

creditors that he has suspended, or that he is about to suspend, payment of his debts."

By Section 1 (2)—

"The expression 'a debtor,' unless the context otherwise implies, includes any person, whether a British subject or not, who at the time when any Act of Bankruptcy was done or suffered by him—

"(*a*) Was personally present in England; or

"(*b*) Ordinarily resided or had a place of residence in England; or

"(*c*) Was carrying on business in England, personally, or by means of an agent or manager; or

"(*d*) Was a member of a firm or partnership which carried on business in England."

Bankruptcy Notice

The Bankruptcy Notice must "be in the prescribed form, and must require the debtor to pay the judgment debt or sum ordered to be paid in accordance with the terms of the judgment or order, or to secure or compound for it to the satisfaction of the creditor or the Court." It must state the consequences of non-compliance with its orders, and must be served in the prescribed manner.

Bankruptcy Petition

Proceedings in bankruptcy are commenced by the presentation of a petition asking for a Receiving Order to be made against the debtor. This petition may be presented by the debtor himself, who must allege inability to pay his debts. A creditor cannot present a petition against a debtor unless—

"(*a*) The debt owing by the debtor to the petitioning creditor, or, if two or more creditors join in the petition, the aggregate amount of debts owing to the several petitioning creditors, amounts to fifty pounds; and

"(*b*) The debt is a liquidated sum, payable either immediately or at some certain future time; and

"(*c*) The act of bankruptcy on which the petition is grounded has occurred within three months before the presentation of the petition; and

"(*d*) The debtor is domiciled in England, or within a year before the date of the presentation of the petition has ordinarily resided, or had a dwelling-house or place of business, in England, or (except in the case of a person domiciled in Scotland or Ireland, or a firm or partnership having its principal place of business in Scotland or Ireland) has carried on business in England, personally or by means of an agent or manager, or (except as aforesaid) is or within the said period has been a member of a firm or partnership of persons which has carried on business in England by means of a partner or partners, or an agent or manager."

Where the debtor himself is the petitioner, the Court will make the Order at once, unless it is merely an attempt on his part to evade a committal order. But if the petition is presented by a creditor, a copy must be served on the debtor, and the Court will hear the petition after eight days have elapsed after such service. It may then either make the Receiving Order, or dismiss the petition, as it thinks fit. The party presenting the petition must pay the stamp duty of £5, and make the deposit of £5 for fees, which is required by the Bankruptcy Rules.

Receiving Order

Where the Court is satisfied that the alleged Act of Bankruptcy on the part of the debtor has been made, it will immediately make a Receiving Order against him, and this fact will be duly advertised in the official *Gazette*. The effect of this Receiving Order is to constitute the Official Receiver the receiver of the debtor's property, and to stay any proceedings against the debtor by the unsecured creditors.

Fraudulent Preference

A fraudulent preference constitutes, as previously mentioned, an act of bankruptcy. By Section 44 of the Act—

"Every conveyance or transfer of property, or charge thereon made, every payment made, every obligation incurred, and every judicial proceeding taken or suffered by any person unable to pay his debts as they become due from his own money in favour of any creditor, or of any person in trust for any creditor, with a view of giving such creditor, or any surety or guarantor for the debt due to such creditor, a preference over the other creditors, shall, if the person making, taking, paying or suffering the same is adjudged a bankrupt on a bankruptcy petition presented within three months after the date of making, taking, paying or suffering the same, be deemed fraudulent and void as against the trustee in the bankruptcy."

Statement of Affairs

This statement must be submitted to the Official Receiver and creditors within three days

of the Receiving Order if made on the debtor's petition, or within seven days if made on a creditor's petition. It must also be prepared on the official forms.

Particulars must be furnished of all secured debts, and of the securities in connection with them. The assets available for the general creditors must be estimated at their realizable value, and shown on one side of the statement; the liabilities to be paid out of these assets must be placed on the other side. The excess of the liabilities over the available assets will then show the estimated deficiency.

Meeting of Creditors

When the Statement of Affairs has been submitted by the debtor, the creditors meet to discuss it, and also the Official Receiver's observation on it. By Section 13 of the Act, they may resolve—

1. To accept a composition in satisfaction of their debts.
2. To agree to a scheme for the arrangement of the debtor's affairs.
3. That the debtor shall be adjudged bankrupt; that a trustee be appointed to administer the estate; that a committee of inspection be appointed to assist the trustee.

In each case the consent of the Court is necessary. And, if either of the first two courses is approved, the Receiving Order is rescinded. In the third case, the debtor is adjudged bankrupt by the Court, and notice thereof is advertised in the official *Gazette*. The debtor against whom a Receiving Order has been made is then required to undergo a public examination.

Composition

A composition is a legal agreement between a debtor and his creditors, whereby each creditor agrees to accept a part of his debt in full settlement of the whole of it. The composition usually takes the form of a payment of so much in the £ on the amount of each debt, in return for which the debtor is released from payment of the balance of each debt.

Deed of Arrangement

Such a deed is governed by the Deeds of Arrangement Act, 1914, and consists of an arrangement between a debtor and his creditors to assign all his property to a trustee for their benefit, to pay them by instalments, or to compound with them. The advantage to the debtor is that he escapes the publicity and stigma of the Bankruptcy Court; the advantage to the creditors is that they obtain a larger dividend, as all expenses in connection with bankruptcy are avoided. Such a deed, however, constitutes an act of bankruptcy, and may be used by a dissentient creditor as the grounds on which to present a bankruptcy petition. If within three months of the execution of the deed, the debtor is declared bankrupt, then the deed becomes void against the trustee in bankruptcy. Owing to this contingency, trustees under such deeds usually retain the proceeds of the assets realized for three months before distributing them.

Committee of Inspection

This is a committee of not more than five, and not less than three, creditors appointed by the whole body of creditors to supervise the winding-up of the debtor's or company's affairs under the trustee in bankruptcy, liquidator, or Official Receiver. Where there is no committee of inspection, its functions are exercised by the Board of Trade.

Public Examination

The examination is held in open Court as soon as possible after the debtor has furnished his Statement of Affairs, unless the Receiving Order has been rescinded. Either the Official Receiver or the creditors may question the debtor regarding his conduct, his business affairs, and his property.

Discharge

On conclusion of the public examination, the debtor may apply to the Court for an order of discharge; and the Court may grant it, or refuse it, or suspend it for a time, as it thinks fit, taking all the circumstances of the case into consideration.

By Sect. 16 (2) of the Act, the Court must refuse the discharge in all cases where the bankrupt has committed any misdemeanour under the Bankruptcy Acts, or in connection with his bankruptcy, or committed any felony connected with his bankruptcy (unless for special reasons the Court otherwise determines).

It may also

1. Refuse the discharge.
2. Suspend it for not less than two years; or
3. Suspend it until a dividend of 10s. in the £ has been paid to the creditors; or

4. Require the debtor as a condition of his discharge to consent to judgment being entered against him for the unsatisfied balance of the debts proved in the bankruptcy, on proof of any of the following facts—

"(a) That the bankrupt's assets are not of a value equal to ten shillings in the pound on the amount of his unsecured liabilities, unless he satisfies the Court that the fact that the assets are not of a value equal to ten shillings in the pound on the amount of his unsecured liabilities has arisen from circumstances for which he cannot justly be held responsible;

(b) That the bankrupt has omitted to keep such books of account as are usual and proper in the business carried on by him, and as sufficiently disclose his business transactions and financial position within the three years immediately preceding his bankruptcy.

(c) That the bankrupt has continued to trade after knowing himself to be insolvent;

(d) That the bankrupt has contracted any debt provable in the bankruptcy without having at the time of contracting it any reasonable or probable ground of expectation (proof whereof shall lie on him) of being able to pay it;

(e) That the bankrupt has failed to account satisfactorily for any loss of assets or for any deficiency of assets to meet his liabilities;

(f) That the bankrupt has brought on, or contributed to, his bankruptcy by rash and hazardous speculations, or by unjustifiable extravagance in living, or by gambling, or by culpable neglect of his business affairs;

(g) That the bankrupt has put any of his creditors to unnecessary expense by a frivolous or vexatious defence to any action properly brought against him;

(h) That the bankrupt has, within three months preceding the date of the receiving order, incurred unjustifiable expense by bringing a frivolous or vexatious action;

(i) That the bankrupt has, within three months preceding the date of the receiving order, when unable to pay his debts as they become due, given an undue preference to any of his creditors;

(j) That the bankrupt has, within three months preceding the date of the receiving order, incurred liabilities with a view of making his assets equal to ten shillings in the pound on the amount of his unsecured liabilities;

(k) That the bankrupt has, on any previous occasion, been adjudged bankrupt, or made a composition or arrangement with his creditors;

(l) That the bankrupt has been guilty of any fraud or fraudulent breach of trust."

Effect of the Order of Discharge

When the debtor has obtained his order of discharge, he is released from all debts provable in the bankruptcy, except—

1. Debts due to the Crown;
2. Debts incurred through fraud, or through a fraudulent breach of trust;
3. Judgment debts in an action for seduction, in affiliation proceedings, or in a matrimonial cause.

Undischarged Bankrupt

If the debtor does not succeed in obtaining his discharge he becomes known as an undischarged bankrupt; and if he "either alone or jointly with any other person obtains credit to the extent of ten pounds or upwards from any person without informing that person that he is an undischarged bankrupt," he becomes guilty of a misdemeanour. This is also the case if he "engages in any trade or business under a name other than that under which he was adjudicated bankrupt without disclosing to all persons with whom he enters into any business transaction the name under which he was adjudged bankrupt."

The maximum penalty is two years' imprisonment with or without hard labour.

Annulment of Adjudication

Where a Receiving Order has been made on improper grounds, the Court has power to annul it. In cases where a bankrupt subsequently makes a satisfactory arrangement with his creditors, or afterwards pays his debts in full, the Court may annul the bankruptcy. When this happens, the debtor is restored to his original position before the bankruptcy proceedings.

Partnerships

It is natural that when a partnership is made bankrupt, there arise problems which do not exist in the bankruptcy of a sole trader, for there is not only the partnership property to be considered, but also the separate estate, if any, of each partner.

These joint and separate estates of partners are, by Sect. 33 (6) of the Act, to be dealt with as follows—

"In the case of partners, the joint estate shall be applicable in the first instance in payment of their joint debts, and the separate estate of

each partner shall be applicable in the first instance in payment of his separate debts. If there is a surplus of the separate estates, it shall be dealt with as part of the joint estate. If there is a surplus of the joint estate, it shall be dealt with as part of the respective separate estates in proportion to the right and interest of each partner in the joint estate."

Limited Companies

Strictly speaking, a limited company cannot be made bankrupt, but it is usually said to be "in liquidation" if the same state of affairs exists. Since such a company is purely the result of statute law, so the manner in which it is "wound up," as the process of liquidation is called, is governed by the same law. There are three methods of winding-up a limited company, namely—

1. Voluntary.
2. Voluntary, under the supervision of the Court.
3. Compulsory, by the Court.

All these methods are performed by the appropriate Court having jurisdiction to do so. For further information the reader is referred to the Companies Acts, and to the Companies Winding-up Rules, as more detailed discussion is beyond the scope of this work.

Small Bankruptcies

Special provision is made in the Act for dealing with bankruptcies where the total assets of a debtor are not likely to exceed £300. The provisions of Sect. 129 are as follows—

"Where a petition is presented by or against a debtor, if the Court is satisfied by affidavit or otherwise, or the Official Receiver reports to the Court that the property of the debtor is not likely to exceed in value three hundred pounds, the Court may make an order that the debtor's estate be administered in a summary manner, and thereupon the provisions of this Act shall be subject to the following modifications—

(i). If the debtor is adjudged bankrupt, the Official Receiver shall be the trustee in the bankruptcy;

(ii). There shall be no committee of inspection, but the Official Receiver may do, with the permission of the Board of Trade, all things which may be done by the trustee with the permission of the committee of inspection;

(iii). Such other modifications may be made in the provisions of this Act as may be prescribed by general rules with the view of saving expense and simplifying procedure; but nothing in this section shall permit the modification of the provisions of this Act relating to the examination or discharge of the debtor.

Provided that the creditors may at any time, by special resolution, resolve that some person other than the Official Receiver be appointed trustee in the bankruptcy, and thereupon the bankruptcy shall proceed as if an order for summary administration had not been made."

Administration Order

In small cases of insolvency, where the total liabilities do not exceed £50, bankruptcy proceedings are not possible, and the Court is empowered to make an Administration Order, and compel the debtor to pay the whole or a portion of his debts either at once, or by stated instalments, out of his earnings.

Official Forms

On pages 632 to 636 will be found reduced facsimilies of the prescribed forms, Lists A to K, List L, and Front Sheet (or Statement). Each list must be signed by the debtor and dated, thus—

Signature.. .. ..
Dated .. ..19..

List "A"—Unsecured Creditors

On List "A" must be entered the names of all cash and trade creditors who have merely a claim upon the general assets of the estate. On this list must also be entered all creditors on Promissory Notes and Bills Payable. These documents are not documents of title, and therefore such creditors are only Unsecured Creditors.

The balances of debts on Lists "F" and "G," in excess of the distrainable and preferential limits, must also be entered on this list. Notes will be found on the printed form dealing with the treatment of contra accounts, and with the bills of exchange and promissory notes held by creditors.

List "B"—Fully Secured Creditors

On this list must be entered the names of all creditors who hold a covering security for their debts, such as a mortgage, charge, or lien upon any property of the debtor.

The holder of an absolute Bill of Sale is also a secured creditor as regards the chattels mentioned therein. Goods on sale or return, and

In the High Court of Justice

IN BANKRUPTCY

Re No. of 19

N.B.—You are required to fill up carefully and accurately this sheet, and the several sheets A, B, C, D, E, F, G, H, I, J, and K, showing the state of your affairs on the day on which the Receiving Order was made against you, viz.—the day of 19

Such sheets when filled up will constitute your statement of affairs and must be verified by oath or declaration.

STATEMENT OF AFFAIRS

At 19 , date of Receiving Order

Gross Liabilities	Liabilities (as stated and estimated by Debtor)	Expected to Rank	Assets (as stated and estimated by Debtor)	Estimated to produce
£ s. d.		£ s. d.		£ s. d.
	Unsecured creditors as per list (A)		Property as per list (H), viz.—	
	£ s. d.		(a) Cash at banker's	
	Creditors fully secured as per list (B)		(b) Cash in hand	
	Estimated value of securities .		(c) Cash deposited with Solicitor for costs of petition	
			(d) Stock-in-Trade (cost £) . .	
	Surplus		(e) Machinery	
	Less amount thereof carried to sheet (C)		(f) Trade Fixtures, Fittings, Utensils, etc	
	Balance thereof to contra .		(g) Farming Stock	
			(h) Growing Crops and Tenant Right .	
	Creditors partly secured as per list (C)		(i) Furniture	
	Less estimated value of securities		(j) Life Policies	
			(k) Other Property, viz.—	
	Liabilities on Bills discounted other than Debtor's own acceptances for value as per list (D), viz.—		Total as per list (H) . .	
	On accommodation bills as Drawer, Acceptor, or Indorser . . . . . £ „ „		Book debts, as per list (L), viz.—	
	On other bills as Drawer or Indorser . . . . . £ „ „		Good . . . . £ s. d.	
			Doubtful	
	Of which it is expected will rank against the estate for dividend .		Bad	
	Contingent or other liabilities as per list (E) . . . £ „ „			
	Of which it is expected will rank against the estate for dividend .		Estimated to produce	
	£ s. d.		Bills of exchange or other similar securities as per list (J) . £ „ „	
	Creditors for rent, etc., recoverable by distress as per list (F)		Estimated to produce . . .	
	Creditors for rates, taxes, wages, etc., payable in full as per list (G)		Surplus from securities in the hands of creditors fully secured (per contra) .	
	Sheriff's charges payable under Sect. 41 of the Bankruptcy Act, 1914, estimated at .		£	
			Deduct creditors for distrainable rent, and for preferential rates, taxes, wages, Sheriff's Charges, etc. (per contra) .	
	£		£	
	Deducted contra . . £		Deficiency explained in statement list (K) .	
	£		£	

I of in the County of make oath and say that the above statement and the several lists hereunto annexed, marked A, B, C, D, E, F, G, H, I, J, and K, are, to the best of my knowledge and belief, a full, true, and complete statement of my affairs on the date of the above-mentioned Receiving Order made against me.

Sworn at
in the County of,
this day of 19 , (Signature)
Before me

goods sent on approval, remain the property of the owner, unless they are in the order and disposition of the debtor, and cannot, therefore, be included as part of the bankrupt's estate.

In respect of an overdraft a banker may also be a secured creditor; for he has a lien on the securities in his possession, unless they have been deposited with him merely for the purpose of safe custody.

A fully-secured creditor may surrender his security and prove for the whole of the debt, or he may realize his security and prove for the balance of the debt (if any). But if, on realizing the security, the creditor receives more than the amount of the debt, he must hand over the balance for the benefit of the general creditors.

With respect to a mortgage security, interest must be allowed for right up to date of repayment; for a mortgage is a joint charge in respect of both principal and interest. When there are first, second, and third charges on the same property in respect of different debts, the surplus from the first debt must be carried forward to the second debt, and so on. Where the security does not belong to the debtor himself, the creditor must prove for the full amount of the debt.

List "C"—Partly Secured Creditors

On this list must be entered the names of all creditors who have a charge on some part of the debtor's property which, when realized, will pay off only a portion of the debt. The balance of the debt will, therefore, rank against the estate for dividend. On the Statement of Affairs, the value of the security is deducted from the debt in the inner column of the form, and only the balance of the debt is extended into the outer column.

LIST "A"—UNSECURED CREDITORS

The Names to be arranged in alphabetical order and numbered consecutively, Creditors for £10 and upward being placed first

No.	Name	Address and Occupation	Amount of Debt			Date when Contracted		Consideration
						Month	Year	
			£	s.	d			

NOTES—(1) When there is a contra account against the Creditor less than the amount of his claim against the estate, the amount of the Creditor's claim and the amount of the contra account should be shown in the third column, and the balance only be inserted under the heading "Amount of Debt," thus—

Total amount of claim . . . £ : :
Less contra account . . . £ : :
£ : :

No such set-off should be included in sheet "I."

(2) The particulars of any Bills of Exchange and Promissory Notes held by a Creditor should be inserted immediately below the name and address of such Creditor.

LIST "B"—CREDITORS FULLY SECURED

No.	Name of Creditor	Address and Occupation	Amount of Debt			Date when Contracted		Consideration	Particulars of Security	Date when Given	Estimated value of Security			Estimated Surplus from Security		
						Month	Year									
			£	s	d						£	s	d	£	s.	d.

LIST "C"—CREDITORS PARTLY SECURED

No	Name of Creditor	Address and Occupation	Amount of Debt			Date when Contracted		Consideration	Particulars of Security	Month and Year when Given	Estimated value of Security			Balance of Debt Unsecured		
						Month	Year									
			£	s	d						£	s	d	£	s	d.

LIST "D"—LIABILITIES OF DEBTOR ON BILLS DISCOUNTED OTHER THAN HIS OWN ACCEPTANCES FOR VALUE

No	Acceptor's Name, Address, and Occupation	Whether liable as Drawer or Indorser	Date when Due	Amount						Holder's Name, Address, and Occupation (if known)	Amount expected to rank against Estate for Dividend		
				Accommodation Bills			Other Bills						
				£	s	d	£	s	d		£	s	d.

LIST "E"—CONTINGENT OR OTHER LIABILITIES

Full particulars of all Liabilities not otherwise Scheduled to be given here

No.	Name of Creditor or Claimant	Address and Occupation	Amount of Liability or Claim			Date when Liability Incurred		Nature of Liability	Amount expected to rank for Dividend		
						Month	Year				
			£	s	d				£	s.	d

LIST "F"—CREDITORS FOR RENT, ETC., RECOVERABLE BY DISTRESS

No.	Name of Creditor	Address and Occupation	Nature of Claim	Period during which Claim Accrued Due	Date when Due	Amount of Claim			Amount Recoverable by Distress			Difference ranking for Dividend (to be carried to List A)		
						£	s.	d	£	s	d	£	s.	d.

LIST "G"—PREFERENTIAL CREDITORS FOR RATES, TAXES, AND WAGES

No	Name of Creditor	Address and Occupation	Nature of Claim	Period during which Claim Accrued Due	Date when Due	Amount of Claim			Amount Payable in Full			Difference ranking for Dividend (to be carried to List A)		
						£	s.	d	£	s	d	£	s	d.

LIST "H"—PROPERTY

Full particulars of every description of property in possession and in reversion as defined by Section 167 of the Bankruptcy Act, 1914, not included in any other list, are to be set forth in this list

Full Statement and Nature of Property	Estimated to Produce		
	£	s	d.
(a) Cash at Bankers			
(b) Cash in hand			
(c) Cash deposited with Solicitor for Costs of Petition			
(d) Stock-in-Trade at (cost £)			
(e) Machinery at			
(f) Trade Fixtures, Fittings, Utensils, etc., at			
(g) Farming Stock			
(h) Growing Crops and Tenant Right at			
(i) Household Furniture and Effects at			
(j) Life Policies			
(k) Other Property (state particulars), viz.—			

LIST "I"—DEBTS DUE TO THE ESTATE

No	Name of Debtor	Residence and Occupation	Amount of Debt									Folio of Ledger or other Book where particulars to be found	When Contracted		Estimated to Produce			Particulars of any Securities held for Debt
			Good			Doubtful			Bad				Month	Year				
			£	s	d	£	s.	d	£	s	d.				£	s.	d	

NOTE.—If any debtor to the estate is also a creditor, *but for a less amount than his indebtedness*, the gross amount due to the estate and the amount of the contra account should be shown in the third column, and the balance only be inserted under the heading "Amount of Debt," thus—

	£	s.	d
Due to estate			
Less contra account . . .			

No such claim should be included in sheet "A."

LIST "J"—BILLS OF EXCHANGE, PROMISSORY NOTES, ETC., AVAILABLE AS ASSETS

No.	Name of Acceptor of Bill or Note	Address, etc.	Amount of Bill or Note			Date when Due	Estimated to Produce			Particulars of any Property held as Security for Payment of Bill or Note
			£	s.	d		£	s	d	

LIST "K"—DEFICIENCY ACCOUNT

	£	s	d	£	s	d		£	s	d	£	s	d
Excess of Assets over Liabilities on the .. day of.. ......19.. (if any) .							Excess of Liabilities over Assets on the[1]..... day of . ...19. (if any) . .						
Net profit (if any) arising from carrying on business from the[1]........ . day of .... 19 , to date of Receiving Order, after deducting usual Trade Expenses							Loss (if any) arising from carrying on business from the[1]........day of.. .... 19 . to date of Receiving Order, after deducting from Profits usual Trade Expenses . .						
Income or profit from other sources (if any) since the[1] ....day of . ... 19.. . .							Bad Debts (if any) as per Schedule "I"[2] .						
Deficiency as per Statement of Affairs .							Expenses incurred since the[1] .... day of .... 19.. other than usual Trade Expenses, viz : Household Expenses of self and[3] .						
							Other losses and expenses (if any)[4]—						
							Surplus as per Statement of Affairs (if any) .						
Total amount to be accounted for[5]							Total amount accounted for[5]						

NOTES —(1) This date should be 12 months before date of Receiving Order, or such other time as Official Receiver may have fixed
(2) This Schedule must show when debts were contracted.
(3) Add "Wife and Children" (if any), stating number of latter.
(4) Here add particulars of other expenses or losses (if any), including depreciation in the value of stock and effects, or other property as estimated for realization, and liabilities (if any), for which no consideration received.
(5) These figures should agree.

LIST "L"

(In substitution for such of the Sheets named "A—J" as will have to be returned blank.)

LIST	PARTICULARS AS PER FRONT SHEET	DEBTOR'S REMARKS

List "D"—Liabilities of Debtor on Bills Discounted Other than his Own Acceptances for Value

List "A" contains the debtor's own acceptances for value, i.e. his ordinary Bills Payable. On List "D" the debtor must give details of all unmatured bills of exchange to which he is a party either as drawer or indorser. Although the *acceptor* of a bill is the person who is primarily liable for payment, yet, on his default, the liability attaches to every indorser, and also to the drawer.

All unmatured Bills Receivable discounted with bankers or bill brokers, or bills indorsed on to creditors, must, therefore, be shown in this list. The total of such bills is entered in the "Gross Liabilities" column; but only those which the acceptor is expected to dishonour will be extended as liabilities of the estate "ranking for dividend."

On this list, but in a separate column, must likewise be entered all accommodation bills. On such bills the debtor may be liable as *acceptor*, as well as drawer or indorser. He is liable to any third party who is a party for value, but he is not liable to the drawer unless he has shared the proceeds of the bill.

If the debtor is the accommodation acceptor, such bills should be extended as liabilities of the estate; but if he is liable merely as a drawer or indorser, only those bills expected to be dishonoured should be extended as ranking for dividend.

List "E"—Contingent or Other Liabilities

On this list the debtor must enter all liabilities as surety or guarantee for others, the balance due on shares not fully called up, liabilities in respect of any uncompleted contracts or a repairing lease, etc., loans for business purposes from debtor's wife, loans carrying by way of interest a share of profits, etc.

Deferred Creditors

Certain creditors entered on List "E" are called "deferred" or "postponed" creditors, because their claims are not considered unless and until all the other creditors have been paid in full. Such are—

(*a*) Loans for business purposes from the debtor's wife, where the debtor is a sole trader. If the husband is a partner in a firm, and his wife has lent money to the firm, she can claim as an ordinary creditor. This postponement, formerly in the Married Woman's Property Act, is now included in the Bankruptcy Act of 1914, Sect. 36, which reads thus—

"1. Where a married woman has been adjudged bankrupt, her husband shall not be entitled to claim any dividend as a creditor in respect of any money or other estate lent or entrusted by him to his wife for the purposes of her trade or business until all claims of the other creditors of his wife for valuable consideration in money or money's worth have been satisfied.

"2. Where the husband of a married woman has been adjudged bankrupt, any money or other estate of such woman lent or entrusted by her to her husband, for the purpose of any trade or business carried on by him or otherwise, shall be treated as assets of his estate, and the wife shall not be entitled to claim any dividend as a creditor in respect of any such money or other estate until all claims of the other creditors of her husband for valuable consideration in money or money's worth have been satisfied.

(*b*) Loans for business purposes at a rate of interest varying with the profits.

(*c*) The amount due to the seller of the Goodwill of a business in consideration of a share of the profits."

The last two (see Partnership Accounts, page 453, (*d*) and (*e*)) are governed by Sect. 3 of the Partnership Act, 1890, which reads thus—

"In the event of any person to whom money has been advanced by way of loan upon such a contract as is mentioned in the last foregoing section, or of any buyer of a goodwill in consideration of a share of the profits of the business, being adjudged a bankrupt, entering into an arrangement to pay his creditors less than twenty shillings in the pound, or dying in insolvent circumstances, the lender of the loan shall not be entitled to recover anything in respect of his loan, and the seller of the goodwill shall not be entitled to recover anything in respect of the share of profits contracted for, until the claims of the other creditors of the borrower, or buyer for valuable consideration in money or money's worth, have been satisfied."

The Bankruptcy Act, 1914, Sect. 33 (9), expressly confirms this.

List "F"—Creditors for Rent, etc., Recoverable by Distress

By Sect. 33 (4) of the Act, if the landlord distrains within three months before the date

of the Receiving Order, he can be called upon to pay the preferential creditors out of the proceeds, becoming a preferential creditor himself for any loss he thereby sustains. If he distrains after the commencement of the bankruptcy, he is only entitled to *six months'* rent, the balance ranking for dividend (Sect. 35). Electric Light, Gas, and Water Companies frequently have power of distraint in respect of their particular charges, and would consequently appear on this list.

List "G"—Preferential Creditors for Rates, Taxes, and Wages

As regards the preferential creditors, the provisions of the Bankruptcy Act, 1914, Sect. 33 (1) are as follows—

"In the distribution of the property of a bankrupt, there shall be paid in priority to all other debts—

(*a*) All parochial or other local rates due from the bankrupt at the date of the receiving order, and having become due and payable within *twelve months* next before that time, and all assessed taxes, land tax, property or income tax, assessed on the bankrupt up to the fifth day of April next before the date of the receiving order, and not exceeding in the whole *one year's assessment*;

(*b*) All wages or salary of any clerk or servant in respect of services rendered to the bankrupt during *four months* before the date of the receiving order, not exceeding fifty pounds;

(*c*) All wages of any labourer or workman not exceeding twenty-five pounds, whether payable for time or for piece-work, in respect of services rendered to the bankrupt during *two months* before the date of the receiving order: Provided that, where any labourer in husbandry has entered into a contract for the payment of a portion of his wages in a lump sum at the end of the year of hiring, the priority under this section shall extend to the whole of such sum, or a part thereof, as the Court may decide to be due under the contract, proportionate to the time of service up to the date of the receiving order;

(*d*) All amounts, not exceeding in any individual case *one hundred pounds*, due in respect of compensation under the Workmen's Compensation Act, 1906, the liability wherefor accrued before the date of the receiving order, subject nevertheless to the provisions of section five of that Act; and

[*Workmen's Compensation Act*, 1906, *Sect.* 5 (3). Compensation awarded under this Act to any workmen is preferential to the extent of £100 in each individual case, if the employer goes bankrupt and is not covered by insurance. If the award is covered by insurance, the employer's rights against the insurers are transferred to the workman, who may sue the Insurance Company for the amount of his award (Sect. 1).]

(*e*) All contributions payable under the Health and Unemployment Insurance Acts, by the bankrupt, in respect of employed contributors or workmen in an insured trade during *four months* before the date of the receiving order.

"The foregoing debts shall rank equally between themselves and shall be paid in full, unless the property of the bankrupt is insufficient to meet them, in which case they shall abate in equal proportions between themselves.

"Subject to the retention of such sums as may be necessary for the costs of administration or otherwise, the foregoing debts shall be discharged forthwith so far as the property of the debtor is sufficient to meet them"

The claim of an apprentice or articled clerk of a bankrupt for compensation for the unexpired portion of his premium is a preferential debt (Sect. 34). The funeral and testamentary expenses of a deceased insolvent are payable in full out of the debtor's estate in priority to all other debts [Sect. 130 (6)]. If the bankrupt is an officer of a Friendly Society, that body has a preference over his other creditors if he has property or money of the Society in his possession [Sect. 33 (9)].

List "H"—Property

On this list the debtor must enter all his belongings in the shape of goods, money, real and personal property wherever situated. The details required are set forth on the printed list. No asset should be included here unless it is absolutely unfettered.

Those assets which are pledged or mortgaged as security for debts or loans must be shown under such debt or loan as "Value of Security" on the liabilities side of the Statement of Affairs, and *not* on the assets side.

Life Assurance Policy (if any) must be shown, and must be entered at its surrender value. The term "Other Property" includes stocks and shares, reversionary interests, leases, jewellery, and, in the case of a partnership bankruptcy, the surplus (if any) from the partners' separate estates.

Property Retained by the Bankrupt

The property of the bankrupt divisible among his creditors does not, by Sect. 38, include the following—

1. Property held by the bankrupt on trust for any other person.

2. The tools (if any) of his trade, and the necessary wearing apparel and bedding of himself, his wife, and children, to a value inclusive of tools and apparel and bedding, not exceeding £20 in the whole.

List "I"—Debts Due to the Estate

On the printed form, as can be seen, the debts have to be classified into "good," "doubtful," and "bad." The doubtful debts have to be estimated, and their estimated value entered as an asset in the outer column. On the printed form will be found a note respecting the treatment of contra accounts (if any).

List "J"—Bills of Exchange, Promissory Notes, etc., Available as Assets

Particulars must be given, on this list, of all bills of exchange, promissory notes, etc., held by the debtor. Immediately the Receiving Order is made, such documents must be handed over to the Official Receiver.

List "L"—In Substitution for such of the Sheets Named A-J as will have to be Returned Blank

The object of this list is to avoid, in the case of small bankruptcies, having to file a number of blank forms. On this sheet the debtor fills in the letter of each form, and writes the word "Nil" against those that he returns blank.

Front Sheet

The "Front Sheet" or summary contains the totals transferred from the separate lists, and constitutes the "Statement of Affairs," which requires a 2s. bankruptcy stamp. On this sheet are entered the assets as per lists "H," "I," and "J"; then follows the surplus from securities in the hands of the Fully Secured Creditors. The addition of these four items gives the total of the *gross* assets.

The liabilities are entered from the lists "A" to "E," and the proper amounts extended into the column headed "Expected to Rank." The liabilities as per lists "F" and "G," and the sheriff's charges (if any), are then entered but only in the inner column, added up, and the total deducted from the total of the gross assets on the opposite side. The balance gives the total of the *net* assets; and this total, when subtracted from the total of the liabilities ranking for dividend, will show the estimated deficiency, which must agree with the deficiency shown in list "K," explained later on.

Worked Example

The following are the particulars of S. Pumley's affairs at 30th June, 19..—

	£	s.	d.
Unsecured Creditors—			
Bills Payable	1,946	10	8
Household Debts	106	15	4
Trade Accounts	8,869	12	3
Fully Secured Creditors (holding as security a first charge on the Plant and Machinery)	7,893	4	6
Partly Secured Creditors (holding as security a second charge on the Plant and Machinery)	4,857	12	6
Liabilities on Bills Discounted (£65 11s. 8d. of which is expected to rank)	438	16	9
Creditors for Rent (1 year)	250	–	–
Creditors for Rates and Taxes (1 year)	68	15	4
Creditors for Wages and Salaries	47	12	6
Cash in hand	21	4	3
Cash at Bank	72	12	7
Machinery and Plant (expected to realize £10,000)	13,650	14	9
Furniture and Fixtures (expected to produce £680)	917	11	2
Stock-in-Trade (expected to produce £3,456)	4,651	19	6
Household Furniture and Effects (expected to realize £285)	567	14	8
Book Debts—			
Good: £2,706 18s 9d. Expected to produce	2,706	18	9
Doubtful: £617 14s 8d. Expected to produce half.			
Bad: £396 16s. 5d. Expected to produce nil.			
Bills of Exchange in hand (All considered good)	396	16	10

It is desired to draw up the Statement of Affairs for presentation to the creditors, and to ascertain how much in the £ the estate shows. (See page 640.)

Deficiency Account, List "K"

The object of List "K" is to explain, by means of figures, how the deficiency shown in the Statement of Affairs has been brought about.

From a given date—at least twelve months before the date of the Receiving Order—there should be shown, on the one side, the initial capital, the subsequent trading profits, and any other sources of income.

On the other side should be shown the trading losses, losses by bad debts, and all expenses and

losses other than trade expenses, namely, household expenses of self, wife, and children; the difference between premiums paid on life policies and the surrender value of such policies; gambling or stock exchange losses; medical attendance; damages and costs in actions at law; losses through dishonoured bills or accommodation bills expected to rank; and the estimated losses on realization. The balance shown by the Deficiency Account must agree with the balance shown by the Statement of Affairs.

Adjustment of Profits and Losses

The profits and losses shown by the trader's books will be *after* charging interest on capital. Such interest is not provided for in the Deficiency Account. The profits must, therefore, be *increased*, and the losses *decreased*, by the amount of such interest before they are entered in the Deficiency Account. This adjustment may, in some cases, change a small loss into a profit. Again, where partners' salaries have been credited to capital instead of being drawn out in cash, the profits and losses will require similar adjustment, in order to avoid showing the salaries in the Deficiency Account as having increased the capital.

Worked Example

Referring to the foregoing Statement of Affairs, the following further particulars are furnished concerning the affairs of S. Pumley—

Capital at commencement, £6,000. Trading Results: 1st Year, Profit of £1,037 11s. 5d.; 2nd Year, Loss of £785 16s. 3d.; 3rd Year, Profit of £528 10s. 8d.; 4th Year, Profit of £615 19s. 10d.; 5th Year, Loss of £897 4s. 6d. The foregoing profits and losses are after charging Interest on Capital at the rate of £300 per annum. Damages and costs in unsuccessful action at law, £4,500. Drawings, 5 years, at £800 a year. Losses by Bad Debts, £705 13s. 9d. Estimated Losses on Realization: Stock, £1,195 19s. 6d.; Fixtures, £237 11s. 2d.; Plant and Machinery, £3,650 14s. 9d. Liability on Bills Discounted expected to rank, £65 11s. 8d.

It is desired to draw up the Deficiency Account in the prescribed form. (See page 641).

STATEMENT OF AFFAIRS

OF S. PUMLEY, 30TH JUNE, 19..

Gross Liabilities £	s.	d.	LIABILITIES	£	s.	d.	Expected to Rank £	s.	d.
11,047	18	3	Unsecured Creditors (A)[1]				11,047	18	3
7,893	4	6	Fully Secured Creditors (B)	7,893	4	6			
			Value of Security	10,000	–	–			
			Surplus to List "C"	2,106	15	6			
4,857	12	6	Partly Secured Creditors (C)	4,857	12	6			
			Value of Security	2,106	15	6	2,750	17	–
438	16	9	Liabilities on Bills Discounted (D)	438	16	9	65	11	8
125	–	–	Creditors for Distrainable Rent (F)	125	–	–			
116	7	10	Preferential Creditors for Rates, Taxes, and Wages (G)[2]	116	7	10			
			Deducted in full per contra	241	7	10			
£24,478	19	10				£	13,864	6	11

ASSETS	£	s.	d.	Expected to Produce £	s.	d.
Property (H)—						
Cash in hand				21	4	3
Cash at Bank				72	12	7
Stock-in-Trade	4,651	19	6	3,456	–	–
Furniture and Fixtures	917	11	2	680	–	–
Household Furniture and Effects	567	14	8	285	–	–
Total				4,514	16	10
Good Debts (I)—						
Good	2,706	18	9	2,706	18	9
Doubtful	617	14	8	308	17	4
Bad	396	16	5			
Bills of Exchange (J)				396	16	10
Total Assets				7,927	9	9
Deduct Creditors for Rent, Rates, Taxes, and Wages, as per contra				241	7	10
Net Assets				7,686	1	11
Deficiency				6,178	5	–
			£	13,864	6	11

[1] Bills Payable, £1,946 10s 8d.; Trade Accounts, £8,869 12s. 3d.; Household Debts, £106 15s 4d.; Rent, £125

[2] Rates and Taxes, £68 15s 4d.; Wages and Salaries, £47 12s 6d.

The surplus in the hands of the Fully Secured Creditors is, in the case of a second charge on it, transferred to List "C," but, in other cases, is added on to the assets under List "J."

The estate shows approximately 11s 1d. in the £ (£7,686 ÷ £13,864), subject to the expenses of winding up.

DEFICIENCY ACCOUNT

		£	s	d.			£	s.	d
Capital at commencement		6,000	–	–	Trading Losses—				
Trading Profits—					2nd Year	£485 16 3			
1st Year	£1,337 11 5				5th Year	597 4 6	1,083	–	9
3rd Year	828 10 8				Drawings 5 years at £800 per annum		4,000	–	–
4th Year	915 19 10	3,082	1	11	Bad Debts		705	13	9
Household Furniture and Effects		285	–	–	Damages and Costs in unsuccessful action at law		4,500	–	–
Deficiency as per Statement of Affairs		6,178	5	–	Estimated Losses on Realization—				
					Stock	£1,195 19 6			
					Fixtures	237 11 2			
					Plant	3,650 14 9	5,084	5	5
					Household Debts		106	15	4
					Liability on Bills Discounted expected to rank		65	11	8
	£	15,545	6	11		£	15,545	6	11

Trustee in Bankruptcy

The Trustee in Bankruptcy is the person elected by the creditors of a debtor, who has been adjudged bankrupt, to take over the control of his property. The appointment is made subject to the approval of the Board of Trade. The duties of the trustee are to realize the estate of the debtor, and to distribute the proceeds, after first paying off the preferential claims, among the unsecured creditors.

Trustee's Books and Accounts

The trustee must keep a Record Book, in which must be recorded the minutes of all meetings, the resolutions passed, and particulars, in order of date, as to how the estate has been administered.

A Cash Book must also be kept by the trustee, in the prescribed form as shown below and on page 642. A Trading Account must also be kept, if the trustee carries on business.

The trustee must also render to the Board of Trade an account of his receipts and payments, in the prescribed form as shown on page 642. This is audited by the Board of Trade, and an audited copy is kept for the inspection of the creditors or of the bankrupt.

TRUSTEE'S CASH BOOK

Dr. RECEIPTS PAYMENTS

Date	Particulars	Total			Drawn from Bank			Debts Collected			Property Realized			Receipts from Securities held by Creditors			Other Receipts			Date	Particulars	Voucher Nos (in red)	Total		
		£	s	d	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d.				£	s	d

Payments *Cr.*

Paid into Bank	Costs of Realization								Allowance to Debtor	Preferential Creditors (Section 33) and Rent	Payments to Redeem Securities	Dividends Paid	Other Payments
	Board of Trade and Court Fees	Law Costs of Petition (including £5 stamp)	Law Costs after Receiving Order	Commission on Realization and Distribution		Charges of Auctioneer, Accountant, Shorthand Writer, &c., as taxed	Notices in *Gazette* and Local Paper	Incidental Expenses, including Possession					
				Board of Trade	Trustee								
£ s d	£ s. d.	£ s d	£ s. d	£ s d	£ s d.	£ s d.	£ s d	£ s. d.	£ s d	£ s d	£ s d	£ s d	£ s d

BANKRUPTCY ACT, 1914

In the Court of holden at No. of

In Bankruptcy. *Re*

Dr. Statement, showing position of Estate at date of application for Release of Trustee. *Cr.*

	Estimated to produce per Debtor Statement	Receipts
	£ s. d	£ s d.
To Total Receipts from date of Receiving Order, viz.—		
Cash at Bankers		
Deposit on Petition		
(*a*) Stock-in-Trade		
(*b*) Machinery, Fixtures, etc.		
(*c*) Farming Stock		
(*d*) Furniture		
(*e*) Other Property		
Book Debts		
Bills of Exchange		
Surplus from Securities		
Other Receipts—		
Total		
Less—	£ s d.	
Deposit returned to Petitioner		
Payments to Redeem Securities		
Costs of Execution		
Payments per Trading Account		
	£	
Net Realizations	£	

	£ s d.	Payments £ s d.
By Board of Trade and Court Fees (including Stamp of £5 on petition)		
Law Costs of Petition		
Other Law Costs		
Trustees' Remuneration as fixed by the Committee of Inspection, viz.—	£ s d	
per cent on £....assets realized		
per cent on £....assets distributed in dividend		
Special Manager's Charges		
Person appointed to assist Debtor under Sect. 74 of the B. A., 1914		
Auctioneer's Charges as Taxed		
Other Taxed Costs		
Costs of Possession		
Costs of Notices in *Gazette* and Local Papers		
Incidental Outlay		
Total Cost of Realization	£	
Allowance to Debtor		
Creditors, viz.—	£ s. d.	
Preferential		
Unsecured : Final Dividend now declared of in the £ on		
The Debtor's estimate of amount expected to rank for dividend was £		
Balance		
	£	

Bankruptcy Estates Account

The Bankruptcy Estates Account is an account kept by the Board of Trade with the Bank of England. Every trustee in bankruptcy, or under any composition or scheme of arrangement, must pay all moneys received by him into this account.

He may, however, with the sanction of the Board of Trade, if the balance of cash is small, and if such procedure is to the obvious advantage of the creditors, make his payments into and out of some local bank. He must open the account and keep it in the name of the debtor's estate, and any interest received thereon will form part of the general assets of the estate. A trustee must not pay any sums received by him as trustee into his own private banking account. And if he at any time retains for more than ten days a sum exceeding £50, he is liable for interest thereon at the rate of 20 per cent per annum, and also for any expenses occasioned by his default. He may also be removed from office.

Remuneration of Trustee

It would be unusual for the work to be performed by a trustee to be carried on without some remuneration, especially when considering the restrictions imposed on him by law. It is, therefore, arranged by Sect. 82 of the Act that—

"Where the creditors appoint any person to be trustee of a debtor's estate, his remuneration (if any) shall be fixed by an ordinary resolution of the creditors, or, if the creditors so resolve, by the committee of inspection, and shall be in the nature of a commission or percentage, of which one part shall be payable on the amount realized by the trustee, after deducting any sums paid to secured creditors out of the proceeds of their securities, and the other part on the amount distributed in dividend."

Distribution of Dividends

As soon as some of the assets have been converted into cash, the trustee must distribute this to the creditors in the form of a dividend. The distribution of dividends is provided for by Sect. 62 of the Act, which reads thus—

"1. Subject to the retention of such sums as may be necessary for the costs of administration, or otherwise, the trustee shall, with all convenient speed, declare and distribute dividends amongst the creditors who have proved their debts.

2. The first dividend, if any, shall be declared and distributed within four months after the conclusion of the first meeting of creditors, unless the trustee satisfies the committee of inspection that there is sufficient reason for postponing the declaration to a later date.

3. Subsequent dividends shall, in the absence of sufficient reason to the contrary, be declared and distributed at intervals of not more than six months."

Unclaimed Funds or Dividends

In those cases where a creditor does not claim the dividend Sect. 153 of the Act provides as follows—

"Where the trustee, under any bankruptcy composition or scheme, pursuant to this Act or any enactment repealed by this Act, has under his control any unclaimed dividend which has remained unclaimed for more than six months, or where, after making a final dividend, he has in his hands or under his control any unclaimed or undistributed money arising from the property of the debtor, he shall forthwith pay it to the Bankruptcy Estates Account at the Bank of England. The Board of Trade shall furnish him with a certificate of receipt of the money so paid, which shall be an effectual discharge to him in respect thereof."

Any person claiming to be entitled to any moneys in the Bankruptcy Estates Account may apply to the Board of Trade for such moneys, and if the Board of Trade is satisfied as to the validity of his claim, they will order payment to be made to him.

Worked Example

From the following particulars, it is desired to draw up the trustee's *Account of Receipts and Payments* to date of first and final dividend—

RECEIPTS

Cash deposited with solicitor, £10; Cash in hand, £20 16s. 8d.; Cash at Bank, £112 15s. 11d. Stock, £7,980 18s. 3d.; Furniture and Fixtures, £298 12s. 6d.; Plant and Machinery, £2,850; Book Debts, £8,017 13s. 4d.; Bills of Exchange, £1,750 10s. 6d.

PAYMENTS

Board of Trade and Court Fees, £162 11s. 6d.; Law Costs of Petition, £51 13s. 8d.; Taxed Costs of Accountant and Shorthand Writer, £220 16s. 6d.; Guarantee Premium, £12 12s. (authorized by Committee of Inspection to be paid out of the assets); Cost of Notices in

Gazette and local papers, £6 10s. 8d.; Incidental Outlay: Postage, Stationery, etc., £37 15s. 6d.; Allowance to Debtor, £100; Preferential Creditors for Rent, £285, and for Rates, Taxes, and wages, £226 10s. 6d.; Liquidator's Remuneration (as fixed by the Committee of Inspection), 3 per cent on £19,147 4s. 1d., amount realized by assets, and 2 per cent on dividend distributed to the Unsecured Creditors, whose claims amounted to £37,967 10s.

TRUSTEE'S ACCOUNT OF RECEIPTS AND PAYMENTS

Dr. TO DATE OF FIRST AND FINAL DIVIDEND *Cr.*

Receipts	£	s.	d.	*Payments*	£	s.	d
To Cash Deposited with Solicitor	10	–	–	By Board of Trade and Court Fees	162	11	6
,, Cash in Hand	20	16	8	,, Law Costs of Petition	51	13	8
,, Cash at Bank	112	15	11	,, Trustee's Remuneration (as fixed by Committee of Inspection: 3 % on £19,147 4s 1d. realized	574	8	4
,, Stock	7,980	18	3	2% on £18,983 15s distributed[1]	379	13	6
,, Furniture and Fixtures	298	12	6	,, Taxed Costs of Accountant and Shorthand Writer	220	16	6
,, Plant and Machinery	2,850	–	–	,, Guarantee Premium	12	12	–
,, Book Debts	8,017	13	4	,, Cost of Notices in *Gazette* and local papers	6	10	8
,, Bills of Exchange	1,750	10	6	,, Incidental Outlay— Postage, Stationery, etc.	37	15	6
				Total Costs and Charges	1,446	1	8
				,, Allowance to Debtor	100	–	–
				,, Preferential Creditors— Rent	285	–	–
				Rates, Taxes, Wages	226	10	6
				,, First and Final Dividend of 10s. in the £ on £37,967 10s to Unsecured Creditors	18,983	15	–
£	21,041	7	2	£	21,041	7	2

[1] Obtained by calculating $\frac{2}{102}$ of £19,363 8s. 6d., the *gross* amount distributable between the Unsecured Creditors and the Trustee.

CHAPTER XL

INCOME TAX

INCOME tax constitutes such a large part of the public revenue, that the very slightest change in the percentage of income collected, or even in the date of its collection can have marked effects upon the budget for the year.

The direct character of this tax makes it the most noticeable of all government charges, and consequently the most unpopular among those who pay it. But as a large number of the public are exempt from any payment or have relatively small sums to pay, the unpopularity is not universal.

The Economy of Direct Taxation

Irritating as income tax may be, and difficult as the administration may be, the fact remains that it is an exceedingly economic method of collecting money for the State.

Indirect taxation, though scarcely noticeable, involves every shopkeeper, wholesaler, carrier, and middleman who must charge the taxes he collects with his expenses, and add his proportion of profit. Two examples will illustrate this.

Before the war a certain brand of tobacco was 4½d. per ounce. After the war it rose to 1s. per ounce. Of this extra 7½d. the Government received about 3½d. and the other 4d. was the added cost to the public.

In the same way the average price of matches to the general public rose rather more than twice the sum that the nation received by the match tax.

Such cases are not necessarily proof of extra profit to manufacturers or middlemen. A grocer who requires 17½ per cent to cover his expenses and allow a profit cannot dispense with it on some portion of a box of matches. Equally the wholesaler and all middlemen and manufacturers can only work safely by calculating overheads and profit on turnover. They cannot exempt government money.

Indirect taxation means that all traders become Government employees at their own usual rate of profit on turnover. It is very expensive to collect taxes in this way.

Income tax—though it " hurts "—makes it possible for a small staff to collect a very large sum of money, and consequently it is an economical tax.

Avoiding Taxes

None the less the story of income tax is a long record of discovering doors of escape on the one hand, and closing them on the other.

Many of these are awkward and concealed and depend upon the skill of the accountant rather than the state of the law, but there are a few such doors that stood very wide ajar, and afforded remarkable opportunities at one time.

Residence in the Channel Islands as a way of escape from National Taxation was recently much before the public.

Some years ago insurance was discovered to be an excellent method of avoiding payment of income tax. By taking out a short endowment policy every few years a wealthy man could so adjust his affairs, that a large part of his income would be entirely free from the tax. Premiums paid into the assurance office escaped taxation, as the Government, in order to encourage thrift, then exempted all payments for such insurance.

By arranging a series of policies so that a new policy was taken out every year, while after, say, five years the first ones began to come back with profits and interest added, the insurer simply postponed drawing his income and saved the tax by doing so.

Checkmating the Tax Evader

This was a door that the Government closed, barred and bolted, as soon as the fact became so well known that great numbers of persons were taking advantage of it.

In stopping this abuse, however, *bona fide* life assurance was still encouraged. Exemption can now only be claimed in such a way that makes the benefit almost worthless to the tax evader.

These restrictions were—

1. That only one-sixth of a man's income from all sources can be freed from the claim.

Thus, if a man's income were £6,000 a year he could only obtain this relief on £1,000 a year, provided the sum is payable at death.

2. That if the policy is not payable at death, but at some stated time as in the case of endowment policies, then he cannot receive benefit for more than £100.

The third restriction completed the bars and bolts on the doorway of evasion.

3. That no more than 7 per cent of the sum payable at death could be free of income tax.

A few modifications of these rules, explained later, have since been made, but the immediate effect was entirely satisfactory, and the theory underlying them remains unchanged.

The object of the last restriction is not apparent until the case is examined.

When a man is elderly and thinks more of providing for others than himself, he may regard it as quite worth while to spend a large part of his income on insurance of a sum payable at death, if by so doing he should escape paying income tax. The present income tax for instance, would pay the premium on the policy of a man well advanced in life.

But the 7 per cent rule gives its chief advantage to the young insurer, and such a man is not usually a tax evader. With all his life before him it would be more difficult to plan evasion to advantage. The elderly man whose policy would cost him far more than 7 per cent can now gain no advantage by insurance

So with the restrictions affecting the insurer in three ways, this doorway of escape was closed, and a most thriving branch of assurance business reverted to its more customary condition.

Income tax is a compulsory payment levied upon annual incomes from all sources. The law is entirely indiscriminating as to nationality, for every resident in Great Britain and Northern Ireland, whether British subjects or not, is liable to be assessed.

Since the erection of the Dublin Parliament, Southern Ireland is now a separate Fiscal State, and has its own income tax.

For some years from 1923 to 1928 the fact that Southern Ireland passed its own Finance Acts had the unfortunate effect of making some incomes subject to double taxation.

An agreement, however, between the British Government and the Government of the Irish Free State in April, 1926, relieving such persons of double taxation came into operation as from the Finance Act of 1928.

All persons not resident in Great Britain and Ireland who derive income from property in Great Britain and Northern Ireland are subject to taxation upon it.

Taxation at Source

As far as possible incomes are taxed at source, but this cannot be done in all cases, and, especially when the income is liable to super-tax, the attempt would be largely abortive.

The idea behind taxation at source is exceedingly simple. A certain street contains, say, seventy houses. These houses are property, yielding annual incomes to those fortunate persons who own them.

The law reasons : It is not necessary in respect of these houses to search for the owners and to see that the incomes derived are included in the return.

All that needs to be done is to collect the money from the tenant who occupies a house and to empower him to deduct this payment from the next rent.

If we multiply a single tax collected in this way by all the houses in the land, it is obvious that as regards house property there can be no evasion of the tax.

Again :

There are a great many commercial activities that yield profits to their proprietors. Mines, railways, shipping corporations, gas companies and trading firms are more or less visible entities which cannot easily hide themselves.

A single mine or company may have a thousand shareholders all participating in the profits.

To trace all these payments through to their various recipients and to see that each person makes a fair return upon them would be a task of too gigantic a nature to contemplate, as each company might have shareholders, not only in the farthest parts of the island, but in lands a thousand miles away.

By adopting the simpler plan of making the company pay the tax and adjust matters with the shareholders by deduction from the profits, the difficulty of tracing all these separate payments is overcome.

It will be seen that as almost all profit earning property, which brings income to persons in the form of interest on capital, is usually visible and in such form that a tax assessor can scarcely overlook, most persons' interest and profits of this nature arrive to them with the tax already deducted.

Thus one half of the problem is solved.

Earnings cannot be treated in quite the same way, but the same principle, slightly varied can be made to apply.

Here is a company employing a certain number of persons some of whom are liable to pay income tax. " Who are they ? What do you pay them ? " asks the assessor.

The question must be answered. In this way

though the tax may not be paid at source, information is obtained at source, and in the long run this amounts to the same thing.

Obviously when payments are made at the source of the income, some of those are on behalf of persons who do not receive sufficient income from all sources to be liable to pay income tax.

These persons can obtain repayment and though this may involve some formal work on their part, and on the part of the department, the whole operation of tax collection is simplified and facilitated by collection at source.

It is not, however, part of the policy of the Income Tax Department to tax at source in those cases where the majority of the payments will be reclaimed.

An interesting case in point is the Co-operative Society. It is sometimes complained that whereas other trading concerns pay income tax, co-operative societies are exempt.

Those who raise this objection apparently miss the point that income tax is not a tax on trading, but on income: not a tax on commercial activity but on personal profits drawn.

As the co-operative societies have largely been composed of members whose incomes are not large enough for taxation it would follow that such a large percentage of the profit-takers could claim repayment, and make the collection more troublesome and costly than it could be worth.

(As a minor point in this connection it should be noted that the dividends of co-operative societies are not precisely "profits" in the sense in which the dividends of a limited company are profits. They are payable on the amount of money's worth purchased, and are consequently a kind of discount. The co-operative member frequently pays a higher price than the buyer at other shops, in the knowledge that it will come back to him as dividend. A very good case is made of the contention by other retail traders that he frequently pays more than the dividend, in this difference of price).

The principle of collection at source received some modification in 1910 when Super-tax was introduced.

It is impossible in looking through a road of seventy houses, for the ordinary assessor to say "No. 1 belongs to a man with £500 a year so it shall be taxed at 4s. in the pound; but No. 3 belongs to a man with £50,000 a year so it shall be taxed at 10s. in the pound."

Taxation at source is a useful method for dealing with a dead level tax. But information at source can be useful in assessing incomes of various sizes.

Graduation of Income Tax

Income tax is graduated according to the size of income. On incomes up to two thousand a year this graduation takes the form of allowances and deductions from the flat rates imposed.

On incomes over £2,000 a year this graduation takes the form of additional taxation varying from 9d. to 6s. in the pound, so that on very large incomes the total tax amounts to 10s. in the £1.

Earned and Unearned Incomes

Distinction is also made between the income derived from investments and income obtained by professional, commercial, or other work.

The Schedules

For purposes of convenience taxable incomes are described under five different headings or schedules, which are—

Schedule A Incomes from property in lands or buildings.

Schedule B. Incomes from the occupancy of certain lands.

Schedule C. Incomes by way of interest and dividends arising out of public funds.

Schedule D. Incomes by way of profits from professions, trades, and other callings; also interest.

Schedule E. Incomes received as salaries from employment by public companies or private firms

Commissioners of Income Tax

The ordinary work of assessing incomes is carried on by the different local branches of the Income Tax Department. Information obtained at source of income and the official declarations of persons liable to pay afford sufficient data as a rule.

But as questions are at all times likely to arise a certain number of persons are appointed as District Commissioners of income tax, to whom appeal can be made in cases where the person liable to pay desires them to assess his income.

These commissioners hold an honorary position, and are usually persons of local influence. A property qualification is necessary for appointment.

These General or District Commissioners,

appoint additional commissioners and also their clerk whose salary and expenses are paid by the Commissioners of Inland Revenue.

Special Commissioners are Government officials with offices in Kingsway. It is their duty to assess those persons who desire them to do so, and to hear appeals against their own or other commissioners assessments.

On questions of fact there is no appeal against the District Commissioners, but on questions of law the High Courts are available right up to the House of Lords.

The Special Commissioners assess railway companies under Schedule A, railway officials under Schedule E, interest and dividends from public stocks under Schedule C, and they also make assessments for super-tax. The Commissioners of Inland Revenue are *ex-officio* Special Commissioners for Schedule D tax.

Official Year of Assessment

The year of assessment is the Government's official financial year, which runs from 6th April in one year to 5th April in the next year.

Assessors and Inspectors

Assessors are the paid officials appointed by the District Commissioners. Their duty is to issue to all persons liable under Schedule D the well-known forms, which must be completed and returned within twenty-one days.

Every person, whether liable to income tax or not, must make a Return when called upon to do so (Income Tax Act, 1918, Sect. 100) and if no return is made, the Assessor estimates the amount of income. The assessors also make assessments under Schedules A, B, and E. A list of the names and amounts is in each case handed to the Commissioners.

Inspectors of Taxes are paid officials of the Board of Inland Revenue. The duty of an inspector is to supervise the returns made by taxpayers, and the assessments made by the assessors before they are handed to the Commissioners. The inspector is also empowered to amend assessments, to fill in omissions, and to make surcharges.

When a return is not made, he issues a second form, requesting the information asked for to be furnished within seven days. Where proper accounts are produced, it is often possible to arrange the assessment satisfactorily with the inspector. Notice of an appeal against the assessment must be forwarded to the Inspector of Taxes, who will appear before the District or Special Commissioners in support of the assessment.

Rate of Income Tax

The standard rate of income tax for the year 1928-29 (exclusive of relief and allowances) is 4s. in the £.

For super-tax there is a graduated scale, which is dealt with later on in this chapter.

Rate of Tax Chargeable

After all the appropriate allowances have been deducted from the *assessable* income, there remains the balance which is called the *taxable* income. Of this, the first £225 is chargeable with tax at *half* the standard rate; the remainder is chargeable with tax at the *full* standard rate. At present (1928-29), these rates are 2s. and 4s. in the £ respectively

By Sect. 3 of the Income Tax Act: "The due proportion of tax shall be charged for every fractional part of twenty shillings, but no tax shall be charged of a lower denomination than one penny."

Payment of Tax by Instalments

The Finance Act, 1915, introduced the payment of tax by instalments. The full amount of the tax due is still, however, payable in one sum in certain cases, as the table at the top of page 649 shows.

Schedule A

Tax under Schedule A is levied on income derived from the *ownership* of house property, land, and buildings. Hence, the tax is commonly called the "landlord's tax," and the "property tax."

Annual Value of Property

The annual value of property is its annual rental value, i.e. the income it would bring in if the property were actually let. A person living in his own house is, therefore, assessed on the annual value, although he does not receive anything in money from it.

Assessment of House Property

Assessments of house property are made every five years. For the purposes of this assessment tenants are required to state the amount of rent paid and also whether that rent includes rates.

Schedule	One Payment 1st January	Two Payments 1st January and 1st July
A	In all cases excepting where rent is part of an earned income	
B	All cases except those mentioned in the next column	Individuals and firms who occupy the lands for the purpose of husbandry
D	Companies, Societies, Bodies, and all cases of assessment of unearned income, as for interest, foreign income, etc	Individuals or firms in respect of trade, manufacture, or in respect of any profession or vocation
E		All Employees, except weekly Wage Earners in respect of manual labour from whom tax is due on 5th Oct and 5th April.

An assessment may be reduced if the value of the property depreciates, it may also be cancelled if the house has not been occupied for the year of assessment, or reduced if occupied for only a part of the year.

A statutory allowance is made off the gross assessment for the cost of repairs, the tenant being expected to pay the rates. Where, however, the tenant bears the expense of rates, and also repairs, no allowance will be made to the landlord; he will be taxed on the full amount of the rent received. Should the landlord bear the cost of repairs as well as the rates, then he will be allowed not only the statutory amounts but the rates and taxes as well.

The statutory allowances are as follows—

	Allowance
Where Assessment does not exceed £40	One-fourth.
,, ,, exceeds £40 but not £100	One-fifth.
,, ,, ,, £100	£20, plus one-sixth of excess over £100.

There is a provision in the Finance Act, 1923, that the £10 allowance (one-fourth of £40) is not to be less whenever the assessment exceeds £40; this carries the gross assessment from £40 to £50 for the same £10 allowance. If this were not so, premises valued at £45 would only be allowed £9 (one-fifth of £45). Where the cost of repairs and maintenance, upon the average of the preceding five years, exceeds the stated allowances, a claim may be made for repayment of tax suffered on the excess cost of repairs.

Assessment of Farm Property

Assessments of farm or agricultural property are made in much the same manner, *less* the amount of tithe payable by the owner. The allowance for repairs, however, is only one-eighth of the actual rent, this kind of property not entailing such heavy repairs as house property.

The following are illustrations of assessments:

Example 1

	£	s.	d.
Annual Rent at 18s. 6d per week	48	2	–
Less Rates (paid by landlord)	11	14	–
Gross Annual Value for Schedule A tax	36	8	–
Less Statutory Allowance for repairs, ¼th	9	2	–
Net Annual Value for Schedule A	27	6	–

Example 2

	£	s.	d.
Annual Rent	160	–	–
Less Statutory Allowance for Repairs, £20, plus £10 (one-sixth of £60)	30	–	–
Net Annual Value for Schedule A	£130	–	–

Example

Yearly Rent	£320
Less Tithe	40
Gross Annual Value Schedule A	280
Less Allowance for Repairs, one-eighth of Rent	40
Net Annual Value Schedule A	£240

How Schedule A Tax is Collected

Tax under Schedule A is usually levied on the tenant, who is empowered by law to deduct the tax from his next payment of rent to his landlord. The landlord, on production of the receipt for the payment of the tax, is bound by law to allow such a deduction. Where, however, the tenant has a beneficial interest in the assessment, as in the case of property let to relatives or friends below the proper rent, he can recover tax only on the amount of the actual rent paid. Thus, if the net assessment is £130, and the rent £100, the tenant will pay tax on £130, but will only be able to deduct tax on £100. He must bear the tax on the £30 himself.

In cases where land and buildings are let for a less period than one year, the Schedule A tax is not levied on the tenant, but direct on the landlord, as is also the case where the annual rent of property is less than £10.

Where a dwelling-house is assessed at a lower annual value than £10 per annum, it is usual for the landlord to pay the income tax. But this is a matter of convenience for the tenant rather than of right, as the power of collection from the tenant is not vitiated by the custom.

The theory underlying this use is that such property is usually held on a weekly tenancy, and it would be costly and difficult for the Crown Authorities to collect money in this way. To attempt to obtain the whole year's income tax in a single payment from a weekly tenant would be a hardship, if successful, and a disaster if otherwise.

Nature of Schedule A Income

Income assessable under Schedule A is regarded as unearned or *investment* income. Where, however, a house, rent free, forms part of a person's salary or emoluments, the net annual value, if assessable, is regarded as *earned* income.

Tax under Schedule A, instead of being payable in two instalments as are other amounts for income tax, is now payable in one amount for the year on 1st January.

The exception is the case where the amount is treated as earned income, as for example where an employee is allowed a house as part of his salary.

Exemptions from taxation under Schedule A are made to hospitals, charities, universities, and other institutions under certain conditions.

Schedule B

Tax under Schedule B is levied on the profits arising from the *use* of agricultural lands, including farms, nursery and market gardens.

Method of Assessment

Assessments for Schedule B are made every five years, and are based on the *gross* rental. They are not liable to any increase if the rent is raised during this period; but they may be reduced if the rent is lowered. The assessment has, therefore, no connection with profits. The assessment may also be reduced in special cases where floods or storms have damaged growing crops or rendered land unfit for cultivation, provided the landlord has made an abatement in the rent. Under the Income Tax Act, if the farmer furnishes satisfactory proof that his income from working the farm is lower than the statutory income, he can claim repayment of tax on the difference between the two amounts.

A farmer has also the option of being assessed under Schedule D, provided he gives notice to the inspector within two months of the commencement of the yearly assessment, i.e. before the 6th June. The assessment will then be on the profits of the *previous* year, the three years' average under Schedule D having been abolished.

Nature of Income

Income taxable under Schedule B is regarded as *earned* income.

Schedule C

Tax under Schedule C is levied on all profit from interest, dividends, and annuities, payable out of public funds which comprise the funds of Great Britain, Northern Ireland, the Colonies, and also any foreign stock the dividend or interest on which is paid by an agent or bank in Great Britain or Northern Ireland. Where the dividends or interest on foreign public stocks are not paid by an agent resident in Great Britain or Northern Ireland, such interest and dividends are taxed under Schedule D.

Method of Assessment

Under Schedule C, tax is charged on the actual income of the year of assessment.

How Tax is Collected

Tax on dividend and interest is, in most cases, collected at the source. The agent or bank

making the payment is empowered by law to deduct and retain the tax, which has afterwards to be remitted to the Bank of England for the credit of the account of the Inland Revenue Authorities.

There are, however, some exceptions to this rule. Where the half-yearly dividend payable to an individual out of the public funds does not exceed 50s., such dividend is paid in full, no tax being deducted.

The object of this is to prevent small holders, whose incomes are not sufficient to be taxable, from being put to the trouble of claiming repayment of tax. If such income is assessable, however, the stockholder must make a return under Schedule D. Interest on certain other registered or inscribed securities, issued in connection with the Great War, is payable without deduction of tax.

Rate of Tax

The rate of tax under Schedule C does not depend on the period during which the interest or dividends accrued, but on the date of payment. Where the rate of tax is changed during the financial year, the agent making the payment is required to adjust the rate accordingly, so that the tax deducted shall be equivalent to the full rate for the year. Where the last payment has been made before an increase took place, the agent is required to furnish the Commissioners of Inland Revenue with a list of names and addresses, and direct assessments will then be made by the Commissioners, upon the persons concerned, to recover the balance of tax payable (Sect. 211).

Nature of Income

Income taxable under Schedule C is regarded as unearned or *investment* income.

Schedule D

Schedule D is the most important of all the Schedules, as it is the one under which most persons who enjoy substantial incomes are assessed.

Merchants, bankers, manufacturers, professional men, and proprietors and directors of great business corporations come under this classification as part of that important multitude who earn their own livings by working for themselves.

It is, too, among the payers of income tax under Schedule D that the super-tax payers are found

Scope of Tax

Income taxable under Schedule D comprises all income arising from the following—

1. Trade, manufacture, adventure, or concern in the nature of trade.
2. Professions or vocations. Some employments were formerly assessable under this schedule, but all employees are now assessed under Schedule E
3. Profits of an uncertain annual value not charged under Schedule A (i.e. discounts and interest on money not taxed by deduction).
4. Profits from Foreign and Colonial Securities, where tax has not been deducted by the agent entrusted with payment thereof.
5. Profits from Foreign and Colonial Possessions.
6. All annual profits and gains not included under the foregoing heads and not charged under any other schedule.

By the Finance Act, 1926, the following additions have been made to the assessable items, trading concerns, and industries—

(*a*) Income from tithes, manorial rights, etc., formerly assessed under No. II of Schedule A, are now to be assessed under Case III of Schedule D, but the rules of No. II of Schedule A as to deductions and allowances are still to apply.

(*b*) Coal, iron, lead, and copper mines, formerly assessed under Schedule A on the annual value, which was taken to be the average profit for the preceding *five* years, are now to be assessed under Case I of Schedule D on the profits for the year previous to the year of assessment. Railways, quarries, gas and water works, bridges, markets, tolls, fishings, docks, and canals, formerly assessable under Schedule A on the annual value, are now to be assessed under Case III of Schedule D on the profits for the previous year (as before).

Method of Assessment

Persons who are assessable to income tax under Schedule D have the option of being assessed either by the District Commissioners (*a*) in the ordinary course ; (*b*) under a letter or number ; or (*c*) by the Special Commissioners. The latter course is usually adopted by traders who have personal friends or business rivals among the District Commissioners.

Returns for Assessment.

Returns for assessment by the District Commissioners under a letter or number must

be sent to the Clerk of the Commissioners. Returns for assessment by the Special Commissioners must be forwarded to the Inspector of Taxes under cover marked "For Special Assessment."

In other cases the form must be returned to the Assessor or Inspector by whom it was issued. The form must in all cases be filled up before being returned, even if the return is nil. Anyone who fails to make a return, or who makes an incorrect or untrue return is liable to certain penalties of fine and treble duty payable.

Profits from Colonial and Foreign Possessions

Where profits from Colonial and Foreign Possessions have been received through an agent who has deducted British income tax, they must not be entered in the Return. If British income tax has not been deducted, the full amount of the income, whether received in Great Britain or Northern Ireland or not, must be returned for assessment, subject, in the case of income not received in Great Britain or Northern Ireland, to deduction of any income tax deducted at the source. This applies to stocks, shares, securities, and rents. By the Finance Act, 1926, the income to be returned is the income for the year previous to the year of assessment.

The amount to be entered in the Return is the full amount for the year previous to the year of assessment, whether received in Great Britain or Northern Ireland or not, subject, in the case of income not received in Great Britain or Northern Ireland, to deduction of any income tax deducted at the source. Both in this case and the former one, the income for the *first* year is to be the income actually arising in that year. There are also special provisions in the Finance Act, 1926, when the first year's income is not a full year's income.

Profits from Discounts, and Interest of Money not Taxed by Deduction

Under this heading are included all Discounts and Untaxed Interest received or credited, Interest on Banking Account or Deposits, and also Dividends on which the half-yearly amount does not exceed fifty shillings (where such dividends are not payable on coupons annexed to stock certificates payable to bearer). The income to be returned is the income for the preceding year without any deduction The income for the first year, however, is to be the income actually arising in that year.

Profits of Trade, Profession, or Vocation

Where income is derived from the exercise of any business, profession, or vocation, the amount of income to be returned for assessment was formerly the average of the three years preceding the year of assessment. The Finance Act, 1926, abolished the average, and substituted for it the profit of the year *previous* the year of assessment. The amount of income to be returned for assessment in any given year is neither the actual income of that year, nor the income which a person expects to make in that year, but is a "statutory" income, the amount of which is to be computed from actual ascertained figures according to prescribed rules of which the following are an extract—

Rules and Regulations for Calculating Profits

"The tax extends to the Profits of all Trades, etc., carried on or exercised in Great Britain or Northern Ireland by any person whatsoever, whether a British subject or not, and wheresoever residing; and also to the profits of trades carried on or exercised elsewhere than in Great Britain or Northern Ireland if carried on or exercised by persons residing in Great Britain or Northern Ireland."

Amount of Profits

The amount of profits is to be computed on the profits or gains of the year preceding the year of assessment. If the trade, profession, or vocation has been set up in the year of assessment, the charge is to be computed upon the actual profits of that year; and, provided notice is given within twelve months of the end of the year of assessment, the second year will be assessed on the actual profits of that year.

Deductions Allowed

"In computing the profits upon which the average is to be taken, the following deductions are allowed—

"1. Repairs of premises occupied for the purpose of the trade, etc., and for the supply or repair of implements, utensils, or articles

employed, not exceeding the sum usually expended for such purposes according to the average of the three years preceding

"2. Debts proved to be bad; also for doubtful debts according to their estimated value

"3. Rent of premises used *solely* for the purposes of business, and not as a place of residence.

"4. A proportion, not exceeding two-thirds, of the rent of any dwelling-house *partly* used for the purposes of business.

"5. The annual value of any premises occupied by the owner *solely* for the purpose of business, and not as a place of residence, according to the amount on which duty has been paid under Schedule A; less ground rent, if any"

In the case of mills, factories, and similar premises owned by a trading concern, the *full* annual value may be deducted instead of Schedule A assessment.

"6. A proportion, not exceeding two-thirds of the Annual value (according to the amount on which duty has been paid under Schedule A—less ground rent, if any), of any dwelling-house occupied by the owner and *partly* used for the purposes of business.

"7. Any other disbursements or expenses wholly and exclusively laid out for the purposes of the trade, etc.

"8. Sums paid as Corporation profits tax, excess profits duty, or coal levy."

Deductions Not Allowed

"In computing the profits upon which the average is to be taken, the following deductions are not allowed—

"1. Interest on capital, any annual interest, annuity, or other annual payment, payable out of the profits or gains, or any royalty or other sum paid in respect of the user of a patent. (The duty on such interest, patent, royalty, or other annual payment should be deducted from the person to whom the payment is made.)

"2. Sums paid as salaries to partners, or drawings by partners.

"3. Sums invested or employed as capital in the trade or business, or on account of capital withdrawn therefrom

"4. Sums expended in improvement of premises or written off for depreciation of land, buildings, or leases.

"5. Loss not connected with, or arising out of, the trade, etc.

"6. Expenses of maintenance of the persons assessable, their families, or establishments; or any sum expended in any other domestic or private purpose.

"7 Losses recoverable under an insurance or contract of indemnity.

"8. Sums paid as income tax on profits or gains, or on the annual value of trade premises.

"9. Premiums for life assurance, or for wear and tear of machinery or plant; but allowances may be claimed in respect of these items."

The Finance Act of 1928 also provided that under certain conditions any person who has been assessed on a payment for the benefit of a business or a profession, such a payment may be regarded as a commercial loss and any amount that has been paid shall be allowed in computing that person's liability to tax for the six years following that said year.

Schedule E

Tax is levied under Schedule E on all incomes from office or employment, from annuities (except those taxed under Schedule C), pensions, and stipends payable out of the public revenue, or by public or limited companies, or private firms. Directors' fees are also assessed under Schedule E.

Method of Assessment

Assessments under Schedule E are made on officials of the Government, including the Civil Service, officials of the law courts, and of any public body, society or corporation, and on officers of the army and navy. Employees of limited companies, and of private firms, are also assessed under this schedule. The assessment is made on the actual income of the year preceding the year of assessment. There are, however, some minor exceptions to this rule. Weekly wage earners are now assessed half-yearly on the actual income of the year of assessment.

Return of Employees and Salaries

By Sect. 105 of the Income Tax Act, 1918, employers, corporations, and limited companies are required to make a return of the names and addresses of their employees, and of the salaries, fees, commission, bonus, and other payment made to them. The names of employees whose incomes do not exceed the exemption limit may, however, be omitted. Where an employee is in receipt of a salary, *free of income tax*, the

amount of his income will be his actual salary plus the tax thereon borne by the employer.

Collection of Tax

Schedule E tax is generally paid by the individual himself. In the Government offices, tax is deducted from the salaries paid to the officials Railway companies are also authorized to deduct tax from the salaries paid to their employees, except those paid by the week.

Nature of Income

Income taxed under Schedule E is regarded as *earned* income.

Allowances

In the case of individuals, before calculating the amount of income that is subject to tax, it is possible to make certain deductions or allowances from the total income.

Relief in Respect of Earned Income

An allowance equal to one-sixth of the earned income is granted to individuals, but must in no case exceed £250 for any one individual.

Section 14 (3) defines "earned income" as follows—

"(*a*) Any income arising in respect of any remuneration from any office or employment of profit held by the individual, or in respect of any pension superannuation, or other allowance deferred pay, or compensation for loss of office given in respect of the past services of the individual or of the husband or parent of the individual in any office or employment of profit, whether the individual, or husband or parent of the individual shall have contributed to such pension, superannuation allowance, or deferred pay or not.

"(*b*) Any income from any property, which is attached to or forms part of the emoluments of any office or employment of profit held by the individual.

"(*c*) Any income which is charged under Schedule B or D or the rules prescribed by Schedule D, and is immediately derived by the individual from the carrying on or exercise by him of his profession, trade, or vocation, either as an individual or, in the case of a partnership, as a partner personally acting therein."

Earned income, therefore, includes salaries and wages of employees, pensions, salaries from public office or employment, managing director's remuneration, profits from the occupation of farms, profits from trade or business, including partners' salaries and interest on their capital in the case of acting partners. Where there are dormant or sleeping partners, the profits of such partners are regarded as unearned income

Unearned income will, therefore, comprise all income obtained without personal service or effort, such as rents from the ownership of land, houses, dividends from investments, interest on money lent, profits from business or trade in the case of a dormant or sleeping partner.

When a private firm is converted into a limited company, its profits become unearned income instead of earned as previously. The tendency of limited companies, especially private companies, is to remunerate the directors by means of a percentage on the annual profits, as such profit is then earned income; whereas, if the profit had been distributed as dividend, it would have been unearned income

The investment income of taxpayers of 65 years or over, and whose total income does not exceed £500, is now regarded as earned income, and they can claim an allowance of one-sixth of their total income.

Personal Allowance

Every taxpayer, if not totally exempt, may claim the following personal allowance, whatever the amount of his income—

1. In the case of an unmarried individual, £135.
2. In the case of a married man whose wife is living with him, £225.

The above amounts, therefore, form the exemption limits of income for the individuals concerned.

Where the total income of husband and wife includes *earned* income of the wife, there was a further allowance to the extent of nine-tenths of the wife's earned income, with a maximum additional allowance of £45 (as shown in some of the illustrations). From 1928–29 this allowance is reduced to five-sixths of the first £50 of the wife's earned income, or a maximum allowance of £41 13s. 4d.

Worked Example 1

Smith and Brown are single men. Smith earns a salary of £120, and has an investment income of £25; Brown earns a salary of £360, and has an investment income of £60. What is the taxable income of each?

BROWN		
Total Income £120 + £25 =		£145
Earned Income	£120	
Less one-sixth	20	
		£100
Investment Income		25
Assessable Income		125
Less Allowance		135
Taxable Income		nil

SMITH		
Total Income £360 + £60 =		£420
Earned Income	£360	
Less one sixth	60	
		£300
Investment Income		60
Assessable Income		360
Less Allowance		135
Taxable Income		£225

Worked Example 2

Smith and Brown are married men. Smith earns a salary of £240, and has an investment income of £20, but his wife earns nothing. Brown earns a salary of £310, and his wife earns £50. Neither of them have any children. What is the taxable income in each case?

SMITH	
Statutory Income	£260
Less Earned Income Allowance $\frac{1}{6}$th of £240	40
Assessable Income	£220
Less Personal Allowance	225
	nil

Smith is therefore exempt.

BROWN	
Statutory Income	£360
Less Earned Income Allowance $\frac{1}{6}$th of £360	60
Assessable Income	300
Less Personal Allowance	225
	75
Less Further Allowance for wife's Earned Income $\frac{9}{10}$ths of £50 (Now reduced to £41$\frac{2}{3}$)	45
Taxable Income	£30

Children and Dependent Relatives

If a taxpayer has a child or children living, and under 16 years of age at any time during the year of assessment, he can claim an allowance of £60 for one child and £50 for each of the other children. This allowance applies also to adopted children and step-children. The allowance also applies to a child over 16, if he is receiving full-time instruction at a university, college, or school, etc. But no allowance will be made for a child who is entitled in his own right to an income of over £60 per annum, provided such income is not derived from a scholarship or similar educational endowment.

An allowance of £60 is granted to a widower who has residing with him a female relative of his, or of his deceased wife, for the purpose of having care and charge of any children, or in the capacity of housekeeper. The deduction may also be claimed in respect of a female person other than a relative, if employed for the same purpose, provided that no other person has claimed or been allowed a deduction in respect of the same female.

An allowance of £60 can likewise be claimed by a widow in similar cases. An unmarried taxpayer who has living with him, and who maintains at his own expense, either his widowed mother or some other female relative for the purpose of having care of the taxpayer's brothers and sisters in respect of whom the children's allowance can be claimed, is also entitled to a deduction of £60.

An allowance of £25 is granted to a taxpayer who maintains at his own expense a relative of his or of his wife, who is incapacitated by old age or infirmity from maintaining himself or herself, or a widowed mother, whether incapacitated or not, of himself or of his wife, provided the income of the dependent relative does not exceed £50 per annum. A deduction of £25 is also made in respect of the taxpayer's daughter, if she is resident with him and maintained by him, and if by reason of old age or infirmity he is compelled to depend on her services.

A similar allowance is made to a female taxpayer under similar circumstances.

Worked Example 3

Smith and Brown each earn a salary of £600. Smith is married, and has four children, one 10, one 12, one 15½, and one 17 years of age. The last one is receiving full-time instruction in a college, and the next one is receiving a salary

of £45 per annum as a junior clerk. Brown is a widower, and has four children under 16 years of age. His unmarried sister lives with him in order to look after the four children. What are the taxable incomes of each?

Where total income does not exceed £1,000 half the standard rate, or 2s in the £.

Where total income exceeds £1,000 but does not exceed £2,000; three-fourths the standard rate, or 3s. in the £.

Smith	
Statutory Income	£600
Less Earned Income Allowance ⅙th of £600	100
Assessable Income	500
Less Personal Allowance	225
	275
Less Allowance for 3 children (£60 + £50 + £50)	160
Taxable Income	£115

Brown	
Statutory Income	£600
Less Earned Income Allowance ⅙th of £600	100
Assessable Income	500
Less Personal Allowance	135
	365
Less Allowance for 4 children	210
	155
Less Allowance for Relative	60
Taxable Income	£95

Life Assurance Premiums

For the purpose of income tax, but not super-tax, a deduction from the amount of tax payable on the taxable income may be claimed in respect of life assurance premiums or for contracts for deferred annuities on the life of the taxpayer or his wife, subject to the following conditions—

(*a*) The premiums must not exceed one-sixth of the total income from all sources.

(*b*) No greater allowance than 7 per cent of the sum payable at death (ignoring bonuses, etc.) will be made in respect of any one policy.

(*c*) Where, as in the case of deferred annuities, no sum is secured at death, the maximum allowance is £100

By Sect. 32 of the Income Tax Act, it is further provided that in the case of insurances or contracts for deferred annuities made after 22nd June, 1916—

(*a*) No allowance shall be made unless a capital sum is secured at death, either alone or in conjunction with other benefits;

(*b*) No allowance shall be made in the case of a policy of deferred assurance in respect of the premiums or payments payable during the period of deferment.

The above two restrictions, however, do not apply to any superannuation or *bona fide* pension schemes for the benefit of employees.

By the Finance Act, 1920, Sect. 26, some amendments were made to the above section of the Income Tax Act, and the following are the rates at which the insurance premiums are now allowed—

For assurance policies and contracts for deferred annuities made not later than 22nd June, 1916—

Where total income exceeds £2,000: the full standard rate, or 4s. in the £.

For assurance policies taken out after 22nd June, 1916—

Half the standard rate, or 2s. in the £, whatever the size of the income.

The previous allowances apply to persons only, but the following may be claimed by firms and limited companies as well as by individuals, when it applies.

Wear and Tear of Plant and Machinery

Where plant or machinery belongs to the trader, or is so let to him that he is bound to maintain and deliver it over in good condition, an allowance may be claimed for diminished value of the same by reason of wear and tear. But if the lessee is not responsible for maintenance, no allowance will be made to him. The allowance is calculated on the value of the plant and machinery as at the commencement of the year, additions during the year being ignored.

The allowance is only made if renewals have been charged to capital and repairs to revenue. In some cases the trader may benefit by foregoing the claim and, in return, being allowed to charge both repairs and renewals to revenue. An allowance can also be claimed for loss on sale of plant which had become obsolete (Income Tax Act, Schedule D Rules, No. 7).

If depreciation has been written off at a higher rate than that allowed, wear and tear allowance may be calculated on the capital value of the plant and machinery as it would have been if depreciated only at the agreed rate.

Formerly, the allowance for wear and tear could only be taken advantage of if there were sufficient profits from which to deduct it. But now, Schedule D Rules, No. 6 (3)—

"Where full effect cannot be given to the deduction for wear and tear in any year owing to there being no profits or gains chargeable for that year, or owing to the profits or gains so chargeable being less than the deduction, the deduction or part of the deduction to which effect has not been given, as the case may be, shall, for the purpose of making the assessment for the following year, be added to the amount of the deduction for wear and tear for that year and deemed to be part of that deduction, or if there is no such deduction for that year, be deemed to be the deduction for that year, and so on for succeeding years."

Limit of Allowance

By Schedule D Rules, No. 6 (6)—

"No deduction for wear and tear or repayment on account of any such deduction shall be allowed in any year, if the deduction when added to the deductions allowed on that account in any previous years to the person by whom the concern is carried on, will make the aggregate amount of the deductions exceed the actual cost to that person of the machinery or plant, including in that actual cost any expenditure in the nature of capital expenditure on the machinery or plant by way of renewal, improvement, or reinstatement."

Items to which the Allowance does not Apply

The allowance does not apply to buildings, horses and carts, tools, implements, and utensils, though in the last three cases the cost of replacement (not exceeding the average of three years) is allowed as a deduction before ascertaining the statutory profits.

Board of Inland Revenue Schedule

The Board of Inland Revenue have issued a schedule of agreed rates of depreciation for various trades. These are accepted by taxpayers and have been generally adopted.

Board of Referees

Where application is made to the Commissioners of Inland Revenue for the rate of depreciation to be amended, they may refer the application to a Board of Referees to determine the deduction which shall be allowed—Income Tax Act, Schedule D Rules, No. 6 (7).

The Board of Referees is composed of business and professional men, and it rests with them to determine what rate of allowance for wear and tear is just and should be granted.

Exemption

In addition to those persons whose incomes do not come within the minimum limit for assessment of income tax, there are certain instances where exemption is granted by statute.

Persons, Societies, and Funds not Assessable

The following are exempt from assessment for income tax—

1. The Crown.
2. Ambassadors and Agents General.
3. Certain buildings under Schedule A, such as public schools, university halls and colleges, hospitals, almshouses, literary and scientific institutions where instruction is given gratuitously.
4. Registered Friendly Societies and Trade Unions.
5. Trustee Savings Banks.
6. Colleges, Universities, Scientific Institutions.
7. Industrial and Co-operative Societies (but not exempt from tax under Schedule A).
8. Charitable Institutions (in so far as their income from rents, dividends, interest, and profit from trading is applied to charitable purposes).
9. Certain Health Insurance Funds in respect of the income of any insurance committee established under the National Insurance Act, 1911.

If, in any of the above cases, income is received less tax, repayment of the tax can be claimed.

Returns

In the case of an individual who is not engaged in his own business, the completion of the return should be a comparatively easy matter. A specimen form is shown on pages 658 and 659. But where a business is concerned some adjustment of the net profit has to be made in order that the statutory profit, as explained on page 652, may be obtained.

FORM NO. 11A —PAGE 2

STATEMENT OF ALL INCOME NOT TAXED AT THE SOURCE, FOR THE YEAR 1927-28 ENDED 5th APRIL, 1928.

Section B

Where there was no income which was not subjected to British Income Tax at the source, enter the word "None" on this page.

Enter the following in Section C and not in Section B :—Dividends Interest, Annuities, etc., subjected to British Income Tax before receipt ; income from ownership of land and houses ; and income from occupation of land assessable to Income Tax under Schedule B.

Enter Particulars of Each Source and the Amount Derived Therefrom	£	s	d.
From Trade, Profession or Vocation. State nature, and where and in what name carried on See *Notes* 1 *and* 3—			
Enter here amount (if any) claimed for Wear and Tear of Machinery and Plant (not to be deducted in arriving at the amount returned above). See *Note* 2. £ s d.			
From any Office, Employment or Pension. Enter description, the full earnings, and particulars of any deductions claimed for expenses. Include any casual fees, etc , in respect of services See *Notes* 4 *and* 5—			
From Interest, Dividends, Annuities and other Annual Payments, and Dominion and Foreign Securities and Possessions, not subjected to British Income Tax at the source. See *Note* 6— Interest on Bank Accounts or Deposits Interest or Dividends on War Loans and National War Bonds (not subjected to British Income Tax at the source), viz.— Other Interest, Dividends, Annuities, Annual Payments, etc. (not subjected to British Income Tax at the source), viz —			
From other Profits or Income not taxed at the source. See *Note* 7—			
Wife's Income, not taxed at the source, if not all included above. See *Note* 8—			

If, **since 5th April, 1927,** the taxpayer (or his wife) has ceased to possess any particular source or part of any particular source of income, or has acquired a new source or an addition to an existing source and the income in question was not taxed by deduction, particulars of the changes should be given below. See *Note* 9

Particulars of such changes :

DECLARATION WHICH MUST

I DECLARE that, to the best of my judgment and belief, (i) the statements in Sections **B, C,** and **D** of this form contain a true and correct
the provisions of the Income Tax Acts, and (ii) all the particulars given by me in Sections **E** to **L** on page 4 in **respect of the year ending 5th April,**
I have claimed a deduction in Section **F** or **G**, or if any other individual is so entitled that such individual has relinquished his or her claim to the

[I desire any assessment upon me under Schedule D to be made by the__________(See *Note* 10.)]

Given under my hand this______

FORM NO. 11A.—PAGE 3

STATEMENT OF ALL INCOMES TAXED AT THE SOURCE FOR THE YEAR 1927-28, ENDED 5th APRIL, 1928.

Section C

Income in respect of which Income Tax is payable directly and not by deduction should be entered in Section B and not in Section C. Income from ownership of land and houses, however, and income from occupation of land assessable to Income Tax under Schedule B, should be included in Section C and not in Section B.
Enter the word "None" in any of the spaces (*a*) to (*e*) which relate to the heads under which you had no income.

Enter Particulars of Each Source and the Amount Derived Therefrom	£	s	d.
(*a*) From Partnership Income not entered elsewhere in this return. See *Note* 11—			
(*b*) From the Ownership of Land and Houses in Great Britain or Northern Ireland, including the net annual value of any property occupied by and belonging to the taxpayer or his wife. See *Note* 12—			
(N B.—Where a property has been purchased or sold since 5th April, 1927, state date of purchase or sale)			
(*c*) From the Occupation of Land in Great Britain or Northern Ireland See *Note* 13—			
(*d*) From Dividends, Interest, Annuities, and other income subjected to British Income Tax at the source. Enter gross amount receivable in the above year. See *Note* 14—			
(*e*) Wife's income, taxed at the source, if not all included above. See *Note* 8—			
TOTAL OF INCOME TAXED AT THE SOURCE			

Section D

STATEMENT OF CHARGES PAYABLE IN THE YEAR 1927-28, ENDED 5th APRIL, 1928

(See *Note* 15

Description of Charges	Gross amounts payable in above year £	s.	d.
(i) Ground Rent on ______ payable to ______			
,, ,, ______ ,, ______			
Interest on Mortgage or Loan—			
£ at 5% on ______ payable to ______			
£ ,, % ,, ______ ,, ______			
£ ,, % ,, ______ ,, ______			
Annuities and other Annual Charges, viz. ______ ,, ______			
TOTAL OF CHARGES			

(ii) If, since 5th April, 1927, there has been any alteration in the annual amount of any charge, particulars of the alteration should be given hereunder

Particulars of such alterations :______

BE COMPLETED AND SIGNED.

return of all the sources of my income and of the amount derived from each source **for the year ended 5th April, 1928,** computed in accordance with **1929**, are truly and correctly stated and that no other individual is entitled to relief from Income Tax for any female relative in respect of whom deduction. I claim the reliefs to which I am entitled by reason of the facts stated in Sections B to L.

day of ______ 19..,

______ Signature.

______ } Private Residence(s).

NOTE.—If a woman, state whether widow, spinster, or married.

ADJUSTMENT OF ACCOUNTS FOR ASSESSMENT UNDER SCHEDULE D

Methods in Use

There are two methods of adjusting the Profit and Loss Account in order to arrive at the assessable profit—

1 To take the *gross* profit, as per the Trading Account, and construct a new Profit and Loss Account, entering only such profits as are taxable, and deducting only such losses and expenses as are allowed by the Revenue Authorities to be deducted.

2. To take the *net* profit, as per the Profit and Loss Account, and add back to the profit all those items which have been deducted but which the Revenue Authorities do not allow as deductions for the purpose of income tax; and to deduct from the total all items already taxed, all items not taxable, and any further items, such as Schedule A assessment, the Revenue Authorities may allow.

Worked Example 4

The following is the Profit and Loss Account of F. Simpson, a trader, who owns his business premises, assessed under Schedule A at £200. It is desired to ascertain therefrom the profit assessable for income tax, for submission to the Inspector of Taxes, who has agreed to an allowance of £28 for wear and tear of plant and machinery—

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

Dr.		£	s	d	Cr.	£	s	d.
To Salaries of Staff		476	12	6	By Gross Profit	2,586	18	9
,, Proprietor's Salary		300	–	–	,, Discounts Received	147	15	3
,, Office Expenses		36	15	4	,, Profit on Sale of Investments	55	10	4
,, Bank Interest		25	10	6	,, Dividends Received, *less* tax	48	–	–
,, Repairs		26	13	8				
,, Income Tax Schedule A		40	–	–				
,, Income Tax Schedule D		142	6	6				
,, Fire Insurance		22	10	6				
,, General Expenses		107	15	8				
,, Bad Debts		136	13	2				
,, Bad Debts Reserve	£200							
Less Old Reserve	165							
		35	–	–				
,, Subscriptions and Donations to Charities		10	10	6				
,, Discounts Allowed		205	17	9				
,, Loss by Cashier's Embezzlement (not covered by insurance)		50	–	–				
,, Interest on Loan		25	–	–				
,, Ground Rent		20	–	–				
,, Depreciation—								
Lease		60	–	–				
Goodwill		52	10	–				
Plant and Machinery		57	18	3				
,, Interest on Capital		150	–	–				
,, Balance (Net Profit)		856	10	–				
		£2,838	4	4		£2,838	4	4

First Method

Dr. PROFIT AND LOSS ADJUSTMENT ACCOUNT *Cr.*

	£	s	d.		£	s	d.
To Salaries of Staff	476	12	6	By Gross Profit as per Trading Account	2,586	18	9
,, Office Expenses	36	15	4	,, Discounts Received	147	15	3
,, Bank Interest	25	10	6				
,, Repairs	26	13	8				
,, Fire Insurance	22	10	6				
,, General Expenses	107	15	8				
,, Bad Debts	136	13	2				
,, Discounts Allowed	205	17	9				
,, Cashier's Defalcation	50	–	–				
,, Schedule A Value of Premises	200	–	–				
,, Balance (Assessable Profit)	1,446	4	11				
	£2,734	14	–		£2,734	14	–

Second Method

Dr. PROFIT AND LOSS ADJUSTMENT ACCOUNT *Cr.*

	£	s.	d.		£	s	d.
To Deductions Allowed—				By Net Profit as per Profit and Loss			
Annual Value of Premises, Sch. A	200	–	–	Account	856	10	–
,, Items already taxed—				,, Deductions not Allowed added back—			
Dividends	48	–	–	Proprietor's Salary	300	–	–
,, Items not taxable—				Income Tax	182	6	6
Profit on Sale of Investments (Capital				Bad Debts Reserve	35	–	–
gain)	55	10	4	Subscriptions, etc.	10	10	6
,, Balance (Assessable Profit)	1,446	4	11	Interest on Loan	25	–	–
				Ground Rent	20	–	–
				Depreciation	170	8	3
				Interest on Capital	150	–	–
	£1,749	15	3		£1,749	15	3

	£	s	d
The profit for the current year's assessment is	1,446	4	11
Less Allowance for Wear and Tear	28	–	–
	1,418	4	11
Less Earned Income Relief one-sixth	236	7	6
Business Income	£1,181	17	5

Simpson, however, will have to make a return of his total income from all sources. This will include Schedule A value of premises, £200; Schedule C value of investments, £60 (£48 + £12 tax); business profits; and any other income including his wife's income if any. From the total of all these, he will be allowed to deduct the personal allowance, the allowance for children (if any under 16), and a final allowance for life assurance premiums.

Worked Example 5

The net profit of the X Y Z Company, Ltd., for the year previous to the year of assessment, as shown by their Profit and Loss Account is £4,654. Before arriving at this result, the following items had been charged, or credited, in the accounts—

	£	s.	d.
Transfer Fees Received	42	10	6
Annuity to late Secretary	160	–	–
Bank Interest	37	18	4
Directors' Fees	350	–	–
Income Tax Schedule D	326	14	6
Rent of Trade Premises	325	–	–
Debenture Sinking Fund Instalment	200	–	–
Royalties Paid	45	10	6
Debenture Interest	500	–	–
Dividends Received	140	–	–
Transfer to Reserve	400	–	–
Depreciation of Plant and Machinery	185	8	8
Amount written off Goodwill	300	–	–

It is desired to make up the Company's Income Tax Statement for presentation to the Income Tax Inspector, who allows a claim of £92 for wear and tear of plant and machinery.

INCOME TAX STATEMENT

	£	s	d
Net Profit as per Profit and Loss Account	4,654	–	–
Add Deductions made but not allowed—			
Annuity to Secretary	160	–	–
Income Tax Schedule D	326	14	6
Debenture Sinking Fund Instalment	200	–	–
Royalties Paid	45	10	6
Debenture Interest	500	–	–
Transfer to Reserve	400	–	–
Depreciation of Plant and Machinery	185	8	8
Amount written off Goodwill	300	–	–
	6,771	13	8
Deduct Items already taxed—			
Dividends Received	140	–	–
Adjusted Profit	£6,631	13	8

	£	s.	d.
The assessment will therefore be	6,631	13	8
Less Claim for Wear and Tear	92	–	–
	£6,539	13	8

and tax will be payable at the full standard rate. Earned income relief, personal allowances, etc., will not apply, as the concern is a company and not an individual.

Interest on Loans and Debentures

If for the year of assessment the trader's accounts showed a loss, even after adjustment for income tax, the trader would still be assessed on any interest on loans, as he must account to the Revenue Authorities for any tax deducted. Likewise, a joint-stock company would be assessed on its debenture interest, even if it had no taxable trading profits.

Partners and Income Tax

Partners can no longer claim to be separately assessed, as was formerly the case. They may still claim their allowances as individuals, but the total of such allowances is made off the firm's assessment. Sect. 20 of the Income Tax Act, 1918, enacts as follows—

"Partners carrying on a trade, profession, or vocation together who are entitled to the profits thereof in shares, may claim any allowance or deduction according to their respective shares and interests . . . provided the income of a partner from a partnership carrying on any trade, profession, or vocation shall be deemed to be the share to which he is entitled during the year to which the claim relates, in the partnership profits, such profits being estimated according to the several rules and directions of this Act."

The partner makes a separate Return for the purpose of claiming exemption, relief for earned income, allowance for children, etc.

Worked Example 6

Smith, Brown, and Kerry are in partnership sharing profits and losses equally. Smith receives a salary of £450, Brown £350, and Kerry £250 per annum. The capitals of the partners are: Smith £7,000, Brown £5,000, and Kerry £3,000; and by the terms of the partnership deed each partner is entitled to Interest on his Capital at the rate of 5 per cent per annum. The firm's assessable profit for the year previous to the year of assessment, as agreed with the Inspector of Taxes, was £7,584.

It is desired to show the allocation of the assessable profit among the partners, and also what each will have to pay in tax, and to explain how the tax should be dealt with in the partnership books. (See page 663).

Income tax should not be debited to Profit and Loss, otherwise each partner would bear one-third (i.e. tax on £2,528). And while Brown would bear his just share, Smith would be under-taxed, and Kerry would be over-taxed. In other words, Kerry would bear part of the tax on Smith's profits. If income tax has been debited in one lump sum, as paid, to Income Tax

ALLOCATION OF ASSESSABLE PROFIT BETWEEN PARTNERS

	Total	Smith	Brown	Kerry
	£	£	£	£
Interest on Capital	750	350	250	150
Partnership Salary	1,050	450	350	250
Share of Assessable Profit divisible equally	5,784	1,928	1,928	1,928
	£7,584	£2,728	£2,528	£2,328

Account, a Journal entry should be made, debiting each partner's Drawing Account with his share, and crediting Income Tax Account with the total. The payment may, however, be analysed in the Cash Book, and each partner's Drawing Account debited direct with his share.

For the purpose of completing the Return, the following further particulars are ascertained:

Smith's total income is £3,128, i.e. he has an additional income of £400 from investments which is already taxed. He is a single man.

Brown is a married man with two children under 16 years of age. He has no further income, but his wife has an income from investments of £300, already taxed. He pays insurance premiums of £83 per annum on his own life, and £30 per annnm on the life of his wife (policies dated 1910).

Kerry's total income is from the partnership, as above. He is a widower, and has an unmarried sister living with him to look after his two children, both under 16 years of age. He pays a life assurance premium of £100 on his own life (policy dated 1912).

The firm's assessment will be—

Business Profits as agreed with Inspector				£7,584
Less Earned Income Relief—				
Smith	£250			
Brown	250			
Kerry	250			
		£750		
Less Personal Allowance—				
Smith	£135			
Brown	225			
Kerry	135			
		495		
Less Allowance for Children—				
Brown	£110			
Kerry	110			
		220		
Less Allowance for Relative—				
Kerry		60		
				1,525
				£6,059

		£	s.	d.
Chargeable £675 (£225 for each partner) at 2s. in the £		67	10	–
and £5,384 at 4s. in the £		1,076	16	–
		£1,144	6	–
Less Life Assurance Premiums—				
Brown	£113			
Kerry	100			
	£213 at 4s in the £	42	12	–
		£1,101	14	–

Smith's liability for tax will be—

		£	s.	d.
Share of Business Profits	£2,728			
Less Earned Income Relief (maximum)	250			
	2,478			
Less Personal Allowance	135			
Taxable Income	£2,343			
Chargeable £225 at 2s. in the £		22	10	–
and £2,118 at 4s. in the £		423	12	–
		£446	2	–

Brown's liability for tax will be—

			£	s.	d.
Share of Business Profits		£2,528			
Less Earned Income Relief (maximum)		250			
		2,278			
Less Personal Allowance	£225				
Less Children's Allowance	110				
		335			
Taxable Income		£1,943			
Chargeable £225 at 2s. in the £			22	10	–
and £1,718 at 4s in the £			343	12	–
			£366	2	–
Less Life Assurance Premiums £113 at 4s. in £			22	12	–
			£343	10	

Kerry's liability for tax will be—

		£	s.	d.
Share of Business Profits .	. £2,328			
Less Earned Income Relief (maximum) . .	. 250			
	2,078			
Less Personal Allowance £135				
,, Children's Allowance 110				
,, Relative's Allowance 60	305			
Taxable Income	£1,773			
Chargeable £225 at 2s in the £		22	10	–
and £1,548 at 4s in the £		309	12	–
		£332	2	–
Less Life Assurance Premium £100 at 4s in £		20	–	–
		£312	2	–

The firm's total liability for tax, £1,101 14s., is therefore apportionable as follows—

	£	s	d
Smith	446	2	–
Brown	343	10	–
Kerry	312	2	–
	£1,101	14	–

Married Women and Income Tax

The income of a married woman living with her husband is, by the Income Tax Act, deemed to be the husband's income, and claims for relief and allowance will be made on the aggregate of the incomes of both husband and wife. The return must be made by the husband, who must include the whole of his wife's income whether taxed or not.

Separate Assessment if Desired

Provided application is made between the 6th January preceding the year of assessment and the 6th July in the year of assessment, the incomes of husband and wife will be assessed separately. The joint income will, however, still determine the amount of relief and allowances, so that no greater benefit is obtained.

The relief in respect of earned income will be apportioned between husband and wife in the proportion which the earned income of each bears to the total earned income. Personal allowance, further personal allowance, and allowance for children will be apportioned between husband and wife in the proportion which the assessable income of each bears to the total assessable income. Allowances for adopted children and dependent relatives will be made to the party who maintains the children or relatives. Deductions in respect of life assurance premiums will be granted to the party who pays the premiums.

Worked Example 7

Brown has an earned income of £1,800, and an investment income of £450 (gross). His wife's earned income is £700. They have three children under 16 years of age. Brown supports his invalid father, and his wife maintains her deceased sister's orphan child of 10 years of age. Brown pays life assurance premiums of £100 per annum on his own life, and £30 per annum on the life of his wife, the policies being dated 1908. A claim is made for separate assessments. Show the assessments. (See page 665).

SPECIAL CLAIMS AND ALLOWANCES

Setting off Losses of One Business Against the Profits of Another

According to the Income Tax Act, Rule 13, Cases I and II Schedule D, it is provided that where a person carries on, either solely or in partnership, two or more distinct trades, manufactures, adventures, or concerns in the nature of trade, the profits of which are chargeable under the Rules of Schedule D, he may deduct or set off against the profits gained in one or more of the said concerns the excess of the loss sustained, in any other of the said concerns, over and above the profits thereof. For example—

Business Profit as Grain Merchant .	. £1,256	
Less Business Loss as Art Dealer	. 672	
		£584
Income from Investment (gross) .	.	200
Total Statutory Income .	.	£784

Special Relief Under Schedule D

By Sect. 29 of the Finance Act, 1926, if it can be shown that the profits of either of the first two of the three years which would, but for the abolition of the average system, have been used as the basis of assessment to income tax for 1927-28, are less than the average profits of the six years preceding those three years, the taxpayer has the right to be charged for 1927-28 and 1928-29 on the previous basis of the three years' average. Where the taxpayer has not been in possession of the source of income

SEPARATE ASSESSMENT OF HUSBAND AND WIFE

Particulars of Income		Total	Husband	Wife
		£	£	£
Earned Income		2,500	1,800	700
Less Maximum relief— Husband, $\frac{1800}{2500}$ths ; Wife, $\frac{700}{2500}$ths of £250		250	180	70
		2,250	1,620	630
Investment Income		450	450	
Assessable Income		2,700	2,070	630
Deduct Allowances—				
Personal	£225			
Further Personal (Maximum for Wife's earned income)[1]	45			
Three Children (£60 + 50 + 50)	160			
	£430			
Husband $\frac{2070}{2700}$ths ; Wife, $\frac{630}{2700}$ths of £430		430	329⅔	100⅓
		2,270	1,740⅓	529⅔
Wife's Sister's Child		50		50
		2,220	1,740⅓	479⅔
Husband's Invalid Father		25	25	
Taxable Income		2,195	1,715⅓	479⅔
Chargeable at 2s in the £, £225 Husband, $\frac{2070}{2700}$ths ; Wife, $\frac{630}{2700}$ths of £225		225	172½	52½
Chargeable at 4s. in the £ balance		1,970	1,542⅚	427⅙
Tax payable at 2s in the £ on £225		22 10 –	17 5 –	5 5 –
Tax payable at 4s. in the £ on £1,970		394 – –	308 11 4	85 8 8
		416 10 –	325 16 4	90 13 8
Less Tax already paid— £450 at 4s. in the £		90 – –	90 – –	
Tax now payable by direct assessment		£326 10 –	£235 16 4	£90 13 8

[1] (Now reduced to £41⅔)

The separate assessments will therefore be—

HUSBAND

	£	s	d.
£172 10s. at 2s. in £	17	5	–
£1,092 16s 8d. at 4s in £	218	11	4
	235	16	4
Less Life Assurance Premiums, £130 at 4s. in £	26	–	–
	£209	16	4

WIFE

	£	s.	d.
£52 10s. at 2s. in £	5	5	–
£427 3s. 4d. at 4s. in £	85	8	8
	£90	13	8

for the six years mentioned, then the average of any shorter period available is to be taken.

By way of example, suppose the following to be the statutory profits as agreed with the Inspector of Taxes for Schedule D assessment—

		£			£
1918	Profit	3,456	1922	Profit	1,672
1919	,,	2,085	1923	,,	2,970
1920	,,	3,846	1924	,,	2,676
1921	,,	2,375	1925	,,	2,133
	1926	Profit	£4,635		

Profit	1918	£3,456
,,	1919	2,085
,,	1920	3,846
,,	1921	2,375
,,	1922	1,672
,,	1923	2,970
		6)16,404
Average		£2,734

The profits for 1924, and also 1925, are less than the average of the six stipulated years. The taxpayer can, therefore, claim to be assessed on the old average system, as follows—

Profit	1924	£2,676
,,	1925	2,133
,,	1926	4,635
		3) 9,444
		£3,148

The assessment for 1927–28 would, therefore, be on £3,148 instead of on £4,635, the year previous to the year of assessment.

Supposing the business had been started on 1st January, 1923, then the profits for 1923 would be the only profits available out of the period of six years. The profits for 1924 and 1925 are, in each case, less than those for 1923; so that the taxpayer could still claim to be assessed on the former system of a three years' average, i.e. on £3,148 instead of on £4,635. Notice must have been given to the Inspector of Taxes by the 5th October, 1927; and the assessment for 1928–29 will be arrived at in a similar way.

Discontinuance of Business

By Sect. 31 of the Finance Act, 1926, where a trade, profession, or vocation is permanently discontinued, the assessment for the year of discontinuance is to be upon the profits from the 6th April to the date of discontinuance, and any overpaid tax can be reclaimed. On the other hand, the Revenue Authorities may make an additional assessment.

Change or Succession

By the Income Tax Act, 1918, when there is any change in a partnership on account of death, dissolution, or admission of a new partner, or when any person succeeds to any trade, manufacture, adventure, or concern, or profession, within the period of assessment, the profits and gains are to be computed and ascertained in the same manner as before; that is to say, such change or succession will not affect the assessment.

By the Finance Act, 1926, if all parties concerned, both before and after the change, give notice to the Inspector within three months of the change that they so require, the tax is to be computed as though the business was discontinued at the date of the change and a new business commenced as at that date, and the tax payable will be charged on the parties accordingly.

SHARE OR PAPER PROFITS

Method of Assessment

It sometimes happens that joint-stock companies convert "paper" profits into fully-paid shares, and then the assessment of such profits for income tax purposes is made as follows—

(*a*) If the shares are distributed, they must be valued at the market price, or at a price to be agreed with the local commissioners. Tax is then payable on this value.

(*b*) If the shares are not distributed but held by the company, the assessment may remain in abeyance for three years, the company to account for any sold during this time. At the end of this time, the shares will be valued, and tax will then be payable on such value.

CHANGE IN RATE OF TAX

Official Rules

Where there has been an alteration in the rate of tax during the period in which the income has accrued, the following rules must be observed—

"1. On dividends and interest from the Public Funds, from Foreign or Colonial Government Loans and Securities or from Foreign and Colonial Companies, received in this country through an agent or bank, on pensions and salaries of officials, on interest and annuities paid by Municipal Corporations or Local Authorities to creditors on rates, tax must be

deducted at the rate current at the time when such payment is actually made.

2. On annual interest, mortgage or debenture interest, annual value of property, ground rent, etc., on interest and annuities payable out of profits or gains chargeable with income tax, on dividends from public companies carrying on business in the United Kingdom, tax must be deducted at the rates ruling during the period in which such income has been accruing (i.e. an apportionment must be made), and tax deducted from one portion at one rate and from the remaining portion at the other rate."

REPAYMENT

Statutory Provisions

The following is a brief summary of the cases in which income tax already paid can be recovered by means of a claim for repayment—

" 1. Where a person's total income does not exceed £225 in the case of a married individual, and £135 in other cases, and the whole or any part of such income has been received less tax.

2. Where earned income relief has not been granted.

3. Where a person is entitled to pay tax at a lower rate, and his income or any part of it has been received less tax at a higher rate.

4. Where a person is entitled to an allowance (*a*) for life assurance premiums ; (*b*) for children under 16 years of age.

5. Where a lessor of plant and machinery is entitled to an allowance for wear and tear.

6. In the case of charitable institutions, public schools, literary and scientific institutions, etc., entitled to exemption.

7. In cases of double assessment, i.e. where a person has paid tax twice for the same year on the same income.

8. Where the actual profits from working a farm amount to less than the statutory assessment, repayment of tax can be claimed on the difference (Schedule B only).

9. In the case of an additional allowance in respect to maintenance of lands and buildings under Schedule A.

10. Where business has been set up within three years, or during year of assessment.

11. Where the business has been discontinued.

12. Where a loss has been sustained.

13. In the case of death or bankruptcy, or any other specific cause of falling off of profits."

Repayment claims may now be made half-yearly as well as yearly as heretofore.

Dominion Income Tax Relief

Where a person has income which is liable both to United Kingdom income tax and Dominion income tax, he is entitled to relief from the former at a rate determined as follows—

(*a*) If the Dominion rate does not exceed half the appropriate British rate, the relief given is the Dominion rate.

(*b*) In any other case, the relief is one-half the appropriate British rate.

The appropriate rate for income tax is found by dividing the tax payable (before deducting life assurance premiums) by the taxable income of the taxpayer concerned.

Where the person concerned is liable also for super-tax, the appropriate rate is the total of the appropriate income tax rate and the super-tax rate. The latter is ascertained by dividing the super-tax payable by the total income for super-tax purposes.

For example, suppose a person has an earned income of £2,000, and an investment income of £2,000 gross, and is a married man with one child under 16 years of age.

Total Income		£4,000
Less Earned Income Relief (maximum)	£250	
,, Personal Allowance . . .	225	
,, Allowance for Child . . .	60	
		535
Total Income . .		£3,465

	£	s.	d
Chargeable £225 at 2s. in the £ . .	22	10	–
and £3,240 at 4s. in the £ . . .	648	–	–
	£670	10	–

Total Income for Super-tax purposes . £4,000

Super-tax is payable as follows—			£	s.	d
On first £2,000		nil			
,, next £500	at	9d. in the £ .	18	15	–
,, ,, £500	,,	1s. ,, ,, ,, .	25	–	–
,, ,, £1,000	,,	1s. 6d. ,, ,, ,, .	75	–	–
			£118	15	–

		s.	d.
Appropriate Income Tax Rate	$= \frac{£670\ 10s.}{3465} =$	3	10
Super-tax rate	$= \frac{£118\ 15s.}{4000} =$		7
Appropriate Rate	$=$	4	5

If Dominion income tax is greater than United Kingdom income tax rate, relief will be

granted at half the above rate, namely, 2s 2½d., on the income doubly taxed.

SUPER-TAX

Super-tax is an additional tax on all individual incomes exceeding £2,000 per annum, and is assessed and charged by the Special Commissioners.

Rate of Tax

For the year 1928-29, incomes exceeding £2,000 are chargeable according to the following scale—

Part of Income		Range of Income			Rate of Tax	
	£	£		£	s	d
On the first	2,000	From 1	to	2,000	nil	
,, ,, next	500	,, 2,001	,,	2,500		9
,, ,, ,,	500	,, 2,501	,,	3,000	1	–
,, ,, ,,	1,000	,, 3,001	,,	4,000	1	6
,, ,, ,,	1,000	,, 4,001	,,	5,000	2	3
,, ,, ,,	1,000	,, 5,001	,,	6,000	3	–
,, ,, ,,	2,000	,, 6,001	,,	8,000	3	6
,, ,, ,,	2,000	,, 8,001	,,	10,000	4	–
,, ,, ,,	5,000	,, 10,001	,,	15,000	4	6
,, ,, ,,	5,000	,, 15,001	,,	20,000	5	–
,, ,, ,,	10,000	,, 20,001	,,	30,000	5	6
,, ,, Remainder		,, 30,001	upwards		6	–

Mode of Assessment

Every person liable to super-tax must, under penalty, give notice to the Special Commissioners before the 30th September in the year of assessment. Further, every person must, when called upon, make a return of his total income for super-tax purposes, whether liable to super-tax or not. If a person fails to make a return, or makes an unsatisfactory return, the Special Commissioners may assess the amount of super-tax to the best of their ability. The income assessable for super-tax is the person's total statutory income for the *previous* year, computed in the same manner as the total income for income tax purposes, except that the allowances for children and relatives, the deduction for earned income, and the deduction for insurance premiums do not apply.

Deductions Allowed for Super-Tax

By the Income Tax Act, 1918, Sect. 5 (3), in estimating the income of the previous year for the purpose of super-tax, the following deductions are allowed—

"(*a*) There shall be deducted in respect of any land on which income tax is charged upon the annual value estimated otherwise than in relation to profits (in addition to any other deduction) any sum by which the assessment is reduced for the purposes of collection, or on which income tax has been repaid under the provisions of this Act in respect of the cost of maintenance, repairs, insurance, and management; and

"(*b*) There shall be deducted in the case of a person in the service of the Crown abroad, any such sum as the Treasury may allow for expenses which in their opinion are necessarily incidental to the discharge of the functions of his office and for which an allowance has not already been made;

"(*c*) Any income which is chargeable with income tax by way of deduction shall be deemed to be income of the year in which it is receivable, and any deductions allowable on account of any annual sums paid out of the property or profits of the individual shall be allowed as deductions in respect of the year in which they are payable, notwithstanding that the income or the annual sums, as the case may be, accrued in whole or in part before that year."

Married Women and Super-Tax

For super-tax purposes, as well as for income tax purposes, the income of a wife is deemed to be her husband's income, and the assessment is made upon the husband. Separate assessments can, however, be claimed, but application for this purpose must be made six months before the 6th July in the year of assessment. And no less amount of super-tax will be payable than if separate assessments had not been made. The amount of super-tax payable will be divided

between them in the proportion that each income bears to the total income assessable for super-tax.

Evasion of Super-Tax

A favourite method is the formation of a private trust company in which the profits are accumulated instead of being divided. By the Finance Act, 1922, a private company which is under the control of not more than five persons, and does not within a reasonable time distribute its profits, may be held liable for super-tax. Such profits will be deemed to be the income of the members, and super-tax will be charged and apportioned among the owners of the shares.

Worked Example 8

Jones owns and occupies a house, the net annual value under Schedule A being £200. There is a mortgage on it of £800 at 5 per cent interest per annum. A ground rent of £20 is payable annually. His business profits, as agreed with the Inspector of Taxes, amount to £3,260. He has an income from investments of £700 gross. He also earns, in director's fees, £500 per annum. His wife earns a salary of £600 per annum, and has an income from investments of £200 per annum. He has two children under 16 years of age, and he pays life assurance premiums on his own life of £200, and on his wife's life of £50 per annum. It is desired to make up his return for super-tax. (See below).

If separate assessments are claimed, the wife will pay $\frac{8}{54}$ths of £291 5s., and the husband will pay $\frac{46}{54}$ths of £291 5s.

PARTNERS AND SUPER-TAX

Adjustment of Accounts

As in the case of income tax, the assessment will be made on the firm, although each partner's share may be separately ascertained. The firm's accounts will need some adjustment. In computing the profit for income tax purposes, all taxed income such as dividends, interest, rents, annual value of premises, etc., were *ex*cluded; but for super-tax they must all be *in*cluded.

Further, items such as interest on loans, annuities, ground rents, were *in*cluded in the assessment for income tax; but for super-tax

SUPER-TAX RETURN

Particulars of Income		Annual Amount £	s.	d.
(a) Business Profits, Schedule D		3,260	–	–
Director's Fees, Schedule E		500	–	–
(b) Net Annual Value of House, Schedule A		200	–	–
(d) Dividends from Investments, Schedule C		700	–	–
(e) Wife's Income—				
Salary, Schedule E	£600			
Income from Investments, Schedule E	200	800	–	–
		5,460	–	–
CHARGES ON INCOME				
(1) Ground Rent	£20			
(2) Interest on Mortgage	40	60	–	–
Total Income for Super-tax		£5,400	–	–

The tax payable will be—				£	s	d.
On first	£2,000		nil			
,, next	500	at	9d	18	15	–
,, ,,	500	,,	1s. od.	25	–	–
,, ,,	1,000	,,	1s. 6d.	75	–	–
,, ,,	1,000	,,	2s. 3d	112	10	–
,, ,,	400	,,	3s. od.	60	–	–
				£291	5	–

they must be *ex*cluded. The former, being items already taxed, were therefore deducted; the latter, being items not allowed, were, therefore, added back; whereas, for super-tax purposes, the former are sources of income for further taxation, while the latter are recognized and allowable expenses out of that income.

Worked Example 9

Lee, Crook, and Scott are in partnership sharing profits and losses one-half, three-tenths, and one-fifth respectively. Their capitals are Lee, £25,000; Crook, £15,000; and Scott, £10,000; and they are entitled to interest on same at 5 per cent per annum. Scott is also entitled to a salary of £1,000 per annum.

They occupy their own premises, assessed under Schedule A at £2,000. The credit side of their Profit and Loss Account includes dividends received *less* tax (at 4s.), £1,600; Interest received *less* tax, £1,200; rents received *less* tax, £1,360. The debit side of the Profit and Loss Account includes ground rents, £650; interest on loans, £800; annuities, £720.

STATEMENT FOR SUPER-TAX ASSESSMENT

	£	s	d	£	s	d.
Partnership Profits as previously assessed				18,750	–	–
Add Taxed Income Received—						
Dividends (Gross)	2,000	–	–			
Interest (Gross)	1,500	–	–			
Rents (Gross)	1,700	–	–			
Annual Value of Premises, Schedule A	2,000	–	–			
				7,200	–	–
Total Income for Super-Tax				25,950	–	–
Deduct Annual Charges—						
Ground Rents	650	–	–			
Interest on Loans	800	–	–			
Annuities	720	–	–			
				2,170	–	–
Net Income for Super-Tax			£	23,780	–	–

The partners' assessments will be—

	£	s.	d.	£	s.	d.
Partnership Profits for Super-Tax purposes				23,780	–	–
Less Interest on Capital, 5% £50,000	2,500	–	–			
,, Partner's Salary (Scott)	1,000	–	–			
				3,500	–	–
Amount divisible proportionally among Partners			£	20,280	–	–
Lee's Assessment—						
One-half Share of Profits	10,140	–	–			
Interest on Capital	1,250	–	–			
				11,390	–	–
Crook's Assessment—						
Three-tenths Share of Profits	6,084	–	–			
Interest on Capital	750	–	–			
				6,834	–	–
Scott's Assessment—						
One-fifth Share of Profits	4,056	–	–			
Interest on Capital	500	–	–			
Partnership Salary	1,000	–	–			
				5,556	–	–
			£	23,780	–	–

The business profits, as previously assessed, amounted to £18,750. It is desired to show the firm's assessment for super-tax, and the partners' separate assessments. The partners have no other sources of income. (See page 670).

Sur-Tax

In 1929–30 super-tax will be superseded by a new tax to be called sur-tax. This new tax will be assessed by the Special Commissioners. Persons whose incomes do not exceed £2,000 a year will not be liable to pay it.

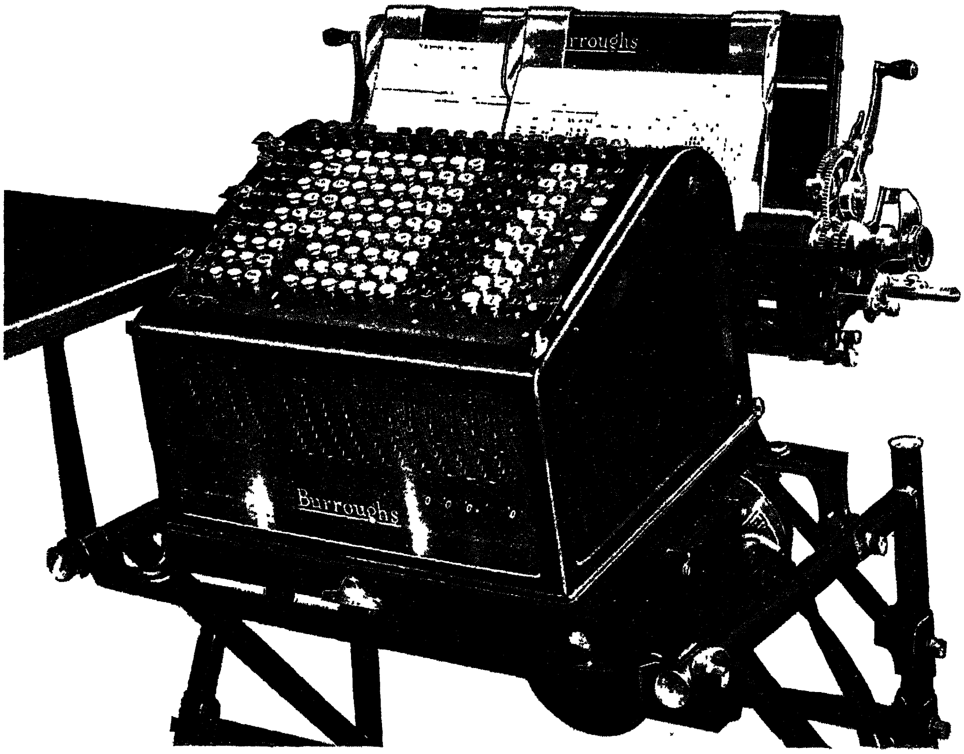
The income returned for income tax purposes will form the basis for assessment to sur-tax. Only one Return of Total Income will, therefore, be required instead of two as at present. Sur-tax will thus be a final instalment of income tax on all incomes exceeding £2,000 a year.

CHAPTER XLI

BOOK-KEEPING BY MACHINERY

In Chapters V, VIII, IX and XIII, it was seen that the process of recording transactions consisted of several parts, namely, in the case of a sale, (1) a record was made from an original document into a book of original entry, a Sales Day Book; (2) an entry was made into the Ledger, (3) when the cash was received an entry was made in the Cash Book; and (4) posted in the Ledger; (5) when goods were returned, an entry was made in the Returns Inwards Book; (6) a posting was made to the Ledger. At the end of a certain period the account was balanced, and a statement prepared and sent to the customer. At the end of a still further period, the various books would be totalled in order that the Adjustment or Control Account might be prepared so as to prove the Sales Ledger by means of a Trial Balance.

A similar procedure would be adopted in the case of purchases. Entries would be made in the Purchases Book, Purchases Ledger; Cash Book, Purchases Ledger; and so on. All these records are made at different times; a Sales Day Book would be compiled one day, and the items posted on some other day. The process is a continuous one taking place over a period of months so that not only is it not possible to be able to tell at any time what is the exact state of a customer's account, but it is also impossible to be absolutely sure of the accuracy of the books until a Trial Balance has been taken out. Therefore, in order to speed up the recording of transactions, in those cases where they are very numerous, machines have been adapted to deal with the work in a much more expeditious manner, not merely by enabling each record to



BURROUGH'S AUTOMATIC BOOK-KEEPING MACHINE

be made more speedily but by enabling more than one record to be made at one and the same time.

Such a machine is known as a Book-keeping Machine, and the usual method of procedure is as follows: the last balance of a certain Ledger account, either from the Sales or Purchases Ledger, is inserted in the machine. To that amount are added the debits, and the credits subtracted, or vice versa as the case may be, and the new balance is recorded automatically and inserted by the machine in the balance column. This is the simplest statement of the procedure, but there are many ways of doing the work and different types of machines to suit the different methods.

For instance, one make of book-keeping machine will post the items to the Ledger, make out the customer's statement, and make up the Control Account at one operation.

There are three distinct kinds of book-keeping machines: (1) adding and listing machines, (2) flat-bed machines, (3) typewriter models.

Adding and Listing Machines

The Adding and Listing machine consists of a keyboard divided to represent pounds, shillings, and pence, with a platen at the rear of the machine to take the Ledger card or sheet, invoice or whatever record is being made. The entry is made by pressing down the appropriate keys and pulling a lever. This causes the machine to print the figures, and turn the platen ready for the next entry.

As an example of such an adding and listing machine, the Burroughs Automatic Book-keeping machine may be instanced, an illustration of which appears on page 672. This machine automatically adds the debits, subtracts the credits, and extends a new balance with each posting. The balances, debit or credit, are automatically designated by distinctive symbols, and all the cyphers and punctuations are printed automatically. It is operated by electricity and has a motor-returned carriage which selects the proper columns for all entries.

This machine is used for posting the customers' Ledger Accounts, and the statement in the case of Sales or the creditors' Ledger Account and advice of remittance in the case of purchases, without the use of carbon paper (both the Ledger Account and Statement or Remittance advice being original records), in one operation. At the same time it automatically accumulates a total of all debits or credits as a proof of posting. Any error in posting can be easily localized to the proper account by means of a proof tape, which is produced automatically as a by-product of the posting operation.

A complete section of the keyboard for the

STATEMENT OF ACCOUNT

RETFORD,
NOTTS.

Messrs. John Bell & Co,
Fores Street, S.W 1.

Dr. to MANN & BUCKHAM

Terms net Monthly

DATE		FOLIO	DR.	DATE		FOLIO	CR.
1928							
DEC 31	A-RD		4 13 8				
1929							
JAN 2	GDS	75	5 10 9				
JAN 5	CGE	15	1 5 7	JAN 5	CSH	84	4 13 8-
JAN 8	GDS	83	2 15 3	JAN 12	CSH	112	25 0 0-
JAN 17	GDS	231	35 16 8				
JAN 22	CGE	37	1 16 9				
JAN 24	GDS	468	10 15 6	JAN 24	CSH	136	24 0 0-
JAN 29	GDS	680	7 13 6				
JAN 29	PKG	169	19 6				
JAN 30	GDS	736	5 18 3				
JAN 31		845	30 6 3				
JAN 31	BAL		53 18 0				

date enables it to be printed automatically in the proper column with each posting. Another section of four figures enables a reference number to be printed in red italics. There are also fifteen descriptive character keys of three letters providing for the special designation of items. The section devoted to the amount has a listing, adding, subtracting, and totalling capacity of £99,999 19s. 11d. When a posting is made to the Ledger it is automatically repeated on the statement or remittance advice, and only one key depression is required to print and designate the balance on both records. With the aid of the illustration on pages 673, 674, and 675 let us trace an actual transaction on to the Statement and across to the Ledger Account. With the Statement and the Ledger Sheet side by side in the carriage, which we find resting in the "proof" position, we read off the last balance £23 11s. 9d., always readily visible, depress the keys and touch the operation bar, which causes this amount to be printed in the "proof" column and also causes the carriage to return automatically to the printing position in the Debit column of the statement ready for the next posting.

SHEET NO. 101 ACCOUNT NO. 63

John Bell & Co.,
Fores Street, S.W 1.

Date	Item	Folio	Debit	Date	Item	Folio	Credit	Balance	Proof
1928									
DEC 15	GDS	6541	12 14 5					12 14 5*	12 14 5
DEC 17		6563	20 15 9					33 10 2*	33 10 2
DEC 19		6812	3 14 7					37 4 9*	37 4 9
				DEC 20	CSH	234	34 19 8–	2 5 1*	2 5 1
DEC 24	GDS	7510	35 18 9					38 3 10*	38 3 10
				DEC 28	CSH	356	37 10 0–		
				DEC 28	DIS		13 10–	*	
DEC 29	GDS	8469	4 13 8					4 13 8*	4 13 8
1929									
JAN 2	GDS	75	5 10 9					10 4 5*	10 4 5
JAN 5	CGE	15	1 5 7					11 10 0*	11 10 0
				JAN 5	CSH	84	4 13 8–	6 16 4*	6 16 4
JAN 8	GDS	83	2 15 3					9 11 7*	9 11 7
				JAN 12	CSH	112	25 0 0–	15 8 5Cr	15 8 5–
JAN 17	GDS	231	35 16 8					20 8 3*	20 8 3
JAN 21	CGE	37	1 16 9					22 5 0*	22 5 0
JAN 24	GDS	468	10 15 6					33 0 6*	33 0 6
				JAN 24	CSH	136	24 0 0–	9 0 6*	9 0 6
JAN 29	GDS	680	7 13 6					16 14 0*	16 14 0
JAN 29	PKG	169	19 6					17 13 6*	17 13 6
JAN 30	GDS	736	5 18 3					23 11 9*	23 11 9
JAN 31		845	30 6 3					53 18 0*	

The date for the new posting will repeat automatically as it was set at the commencement of the day, therefore it only remains for the operator to depress the Description,

Folio, and Amount keys for £30 6s. 3d. when, on operating the Repeat Print key, the new Statement item is printed in its proper place on the Statement.

The £30 6s. 3d. is automatically added to the £23 11s. 9d., the last balance, already in the machine, the carriage travelling to the Debit

PROOF SHEET

Date *Jan.* 31, 1929

Ledger Control No. 7

Posted from *Sales*

Posted by *W.H T.*

ITEMS	PROOF
5 13 9	4 9 6–
15 7 3	10 3 3
23 16 7	21 10 6–
15 19 11	36 17 9
2 17 6	14 0 9–
10 7 6	37 17 4
37 10 2	23 5 6–
30 6 3	39 5 5
	1 17 6–
	4 15 0
	12 13 6–
	23 1 0
	16 15 9–
	54 5 11
	23 11 9–
	53 18 0
141 18 11*	141 18 11*

column of the Ledger, where by a touch of the operating bar the whole Statement item is "Repeat-printed" on to the Ledger sheet, the carriage travelling to the Balance column. A total of £53 18s. od. is now printed, which is the balance outstanding against this particular account.

Flat-bed Machines

The class 2 models differ from the other two classes in that the machine, instead of having a platen which holds the paper, is so arranged that it moves itself across the writing surface, which may be a number of individual forms or a bound book which is opened out flat on a table. If forms are being used, carbon paper in the form of rolls is held in the machine by means of an automatic device, thus doing away with the necessity of handling the carbons when more than one copy is required. Such a machine is the Elliott-Fisher Universal Accounting machine.

Construction of Elliott-Fisher Machine

There are four mechanical fundamentals incorporated in all Elliott-Fisher accounting machines. They are the Platen—the writing surface; the Machine Head—the writing and cross-computing mechanism; the Registers—the mechanism totalling vertical columns; and the Cabinet or Pedestal Mounting—the support for the machine. These are furnished in many variations and sizes to meet the requirements of different accounting problems, making it possible for the machine to give the results called for in individual cases. A brief general description of each of these four mechanical features follows.

THE PLATEN. This is the surface on which the forms are placed for writing. It is made in three widths, 11, 16, and 24 in., to accommodate the many different sizes of forms in use.

The Platen provides a flat writing surface, the basic principle and exclusive feature of all Elliott-Fisher machines.

The forms, arranged in any manner desired, are merely placed on the Platen, with their side edges under a clamp In typing the entry, the writing mechanism moves over the forms just as the hand moves over a sheet of paper when writing by hand. Therefore, the forms remain stationary, in this flat position, until the typing is completed. All rolling, curling, wrinkling or creasing of the forms is thus avoided, allowing them to be preserved in their original state, even when they are re-inserted into the machine at many different times for additional entries. The clamp further ensures the perfect columnar and horizontal alignment of all typing.

The flat writing surface permits the use of carbon paper in roll form—75 ft. in length—which is fed from the rear of the machine, across the Platen to a clamp at the front. Very often the writing of several related records in one operation is required. As an example, in Accounts Receivable it may be desirable to post the Customer's Monthly Statement, the

Ledger Account, and the Sales Journal at the same time. As a rule, such related records are all different in size and shape, but they can easily be placed in exact registration on the flat writing surface, so that all entries can be made in the proper position on each record in one writing To be able to eliminate the duplicated effort and increased opportunity for error involved when such related records are prepared separately is a tremendous advantage It saves considerable valuable time, and assures accuracy of all work.

THE MACHINE HEAD. Machine Heads are made in 11, 16, and 24 in. sizes to correspond with the three different width platens already described, and can be equipped with any size cross-computing register required by the accounting work to be performed. The Head performs the writing and calculating operations, and, in addition, proves the accuracy of its own calculating work. The writing is accomplished with a keyboard similar to that of any standard typewriter.

Owing to the special mechanical features, chief of which is the powerful downward stroke of the sturdy type bars on the forms which lie flat upon the hard stationary writing surface, the machine has unusual manifolding power. The typing is clean cut and legible throughout many copies. Capital type is generally used, to gain maximum legibility and to eliminate the time lost in constantly shifting from small to capital letters.

ELLIOTT-FISHER UNIVERSAL ACCOUNTING MACHINE

The Cross-Computing Register of the Head automatically cross balances figures as they are written in the vertical columns. This register will automatically add or subtract crosswise the amounts in all of the columns in the forms, or any number of them, simultaneously with the writing of the amounts. From 1 to 23 different columns, of either quantity or money values, may be so cross balanced.

As an example of cross balancing, in posting a Customer's Account, the cross-computing register will automatically add the amount to be debited to the previous balance, subtract the credit, and thereby compute the new balance. No operation other than that of typing the figures in the respective columns is involved in this calculation. Whatever the cross balancing

requirements of the accounting problem may be, they can be handled by this machine

The Machine Head, running on ball bearings over the flat writing surface, may be equally well operated by hand or electricity. Thus, should the motor fail for any reason, the machine can still be kept in operation. When electrically driven, all manual effort other than that of placing and removing forms on the flat writing surface and the typing of the entries, is eliminated, and the following automatic features come into play—

1. Automatic Carriage Return—right to left.
2. Automatic Carriage Frame Return—fore and aft.
3. Automatic Line Spacing.

The entire action is thus automatic.

THE REGISTERS. These are the units that accumulate individual totals of the amounts written in each vertical column. They are supplied in many different sizes for totalling either money values or quantity amounts.

Each Register is a complete adding machine in itself that automatically adds, subtracts, and totals amounts as they are written in each column. Further, each Register may be adjusted to any position on the machine, which makes it possible to locate a Register over any column in the forms where totals are required. This affords unlimited flexibility in meeting the individual requirements of different accounting problems.

In addition to accumulating individual column totals, any, or all, of the Registers can be connected with the Cross-Computing Register already described, so that all amounts written in Register Columns, so connected, may also be automatically cross-added, subtracted, and balanced as they are written. Thus, through the simple operation of typing, amounts are automatically totalled in vertical columns and simultaneously cross balanced.

For example, when handling Accounts Receivable, by merely typing the old balance, the debit and the credit, the new balance is automatically calculated. Simultaneously, the Register over each of the above automatically accumulates the total of each column. Thus, when the postings are completed, the machine provides individual totals of all old balances, debits, credits, and new balances. These column totals are the basis for the daily control over the accuracy of all work done.

By being able to automatically total as many as 23 vertical columns and simultaneously cross balance, line for line, the amounts written in some or all of the columns, the Elliott-Fisher Universal Accounting Machine affords a wideness of adaptability that will meet the most exacting requirements of every business institution.

THE MOUNTING. The Mounting is the unit upon which the machine is supported. There are two types of Mountings, namely the Cabinet and the Pedestal. Each of these types is furnished in three sizes to conform with the different sizes of Platens.

The Posting Operation

Before the items are actually posted it will be necessary to arrange the original documents in order of the Ledger Accounts, and in addition those recording the Sales will be listed in order to establish a predetermined total for the purpose of proving the posting.

All classes of transactions may be posted either separately or at the one operation, as required

During the posting of Sales, the daily Sales Journal remains on the flat writing surface and receives an exact and complete copy, line for line, of each entry posted to the various accounts. This sheet records every key stroke made to all accounts, and thereby affords the means for controlling the accuracy of all work without referring to the individual accounts posted.

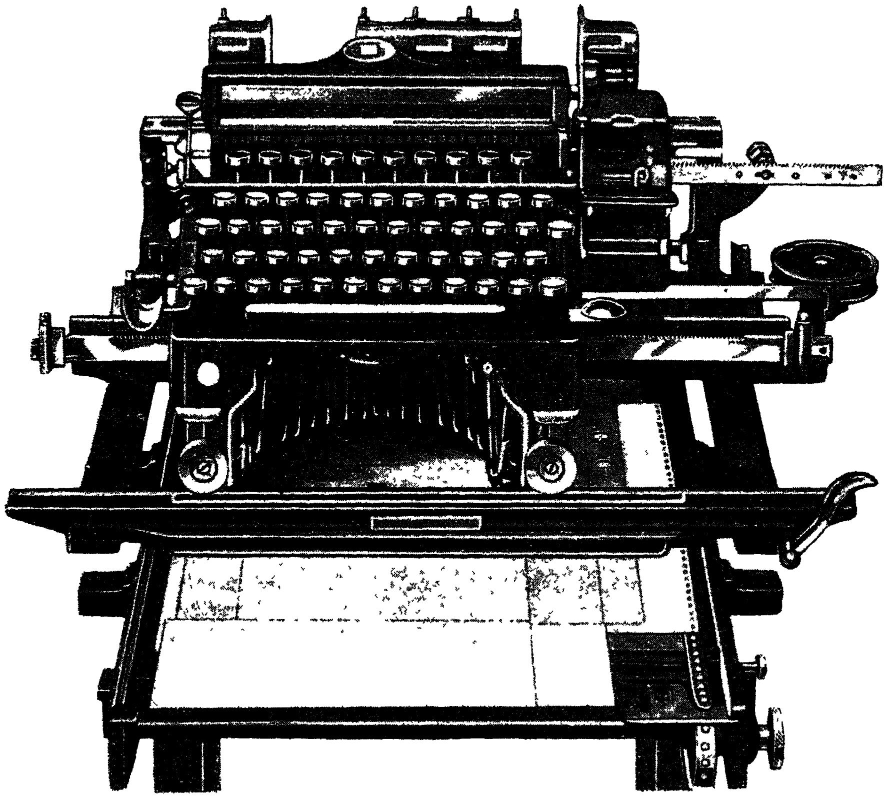
Each statement and ledger sheet is placed on top of this Sales Journal so that all entries follow each other, as shown in the illustration on page 680. The operation of posting involves no complications. It consists only of typing. All the computations are performed automatically as the amounts are typed in their respective columns. In one writing each entry is recorded on all three records.

As the old balance is typed, the amount is automatically and simultaneously added in the Register over the old balance column, and in the Cross Computing Register. This typing is followed by the entering of the reference number, date, and description of the transaction. The description may be abbreviated or written in detail, as desired. As the amount of the debit is typed, it automatically adds in the Register over the debit column, and simultaneously adds to the old balance amount already in the Cross Computing Register, thereby automatically calculating the new balance of the account. As the new balance is recorded, the amount automatically adds in the Register over the new balance column, and at the same time automatically subtracts from the Cross Computing Register, thereby clearing the latter

for the calculation of the new balance of the next account to be posted. The star appearing before the old balance and after the new balance of each entry is printed proof that each balance has been extended correctly

The name of the account is then entered. This is done only when desired by the user of the machine. It serves to identify each entry on the Sales Journal and on the record of Cash Receipts, and also acts as a check on posting to the correct account. The operator is forced to copy this name from the Posting Slip because the name at the top of each Ledger Account cannot be seen when the forms are in the machine. Therefore, if a name is typed that does not correspond with that already appearing along the edge of the account, the discrepancy becomes immediately apparent.

The next entry is the repeating of the old balance in the Old Balance Proof column. The Register over this column automatically accumulates a total of all the amounts as they are entered This operation is optional, and is one of several methods of controlling the accuracy of picking up the old balance correctly. The old balance column of the Statement is blocked out, thus obscuring the amounts typed in this column. Therefore, when repeating the old balance in the Old Balance Proof column, the amount must be copied again from the new balance column on the Statement, thus avoiding the possibility of repeating any errors that may have been made in the first entry of the old balance in the old balance column of the Statement.



Elliott-Fisher Universal Accounting Machine Showing Forms

The procedure when posting Cash Receipts is the same as that described above for Sales. The only difference is that the daily record of Cash Receipts takes the place of the daily Sales Journal in the combination of forms.

The Automatic Audit Sheet

The daily Sales Journal and daily record of Cash Receipts, in this adaptation, are the

Automatic Audit Sheets which provide the means of controlling the accuracy of all work done daily, immediately after the last key stroke, completing the last entry, is made. As previously stated, these sheets record every key stroke. They show an exact and complete copy, line for line, of every entry made to every account. They eliminate the necessity of referring to the individual accounts posted to check accuracy. Every factor necessary to control the accuracy of all work is provided by the Automatic Audit Sheet—the record that is automatically produced as a by-product of the posting operation.

The Automatic Audit Sheet shows the total of every column. By comparing these totals, it is immediately known whether or not any errors have been made, and, if so, where the errors are located.

To prove the accuracy of the old balance "pick ups," the totals of the old balance and old balance proof columns are compared. If these totals do not agree, the error can be located immediately by comparing the amounts adjacent to each other in these two columns of the Automatic Audit Sheet.

To prove the accuracy of the sales posted, the total of the debit column is compared with the predetermined total of sales. To prove the accuracy of the Cash Receipts posted, the total of the credit column is compared with the predetermined total of Cash Receipts If these totals do not agree, the error can be quickly located by comparing the amounts in the debit or the credit columns of the Automatic Audit Sheets with the respective posting slips.

The star before and after each entry on the Automatic Audit Sheets is printed proof of the accuracy of the old balance extensions. A further proof of correctness of all account balances is afforded by the total of the old balance column, plus the total of the debit column and minus the total of the credit column, equalling the total of the new balance column. The cross balancing of these column totals on the Automatic Audit Sheet is also an automatic proof that the machine has correctly calculated all totals. In other words, the machine proves the accuracy of its own calculations.

When each day's work is proved accurate, the totals of the debit and credit columns of the Sales Journal and record of Cash Receipts are posted to the Accounts Receivable Control Account, which will then show daily the exact amount outstanding in each ledger or in all ledgers.

From the foregoing, it will be noted that every provision has been made in the Automatic Audit Sheets for controlling the accuracy of all work daily. Complete control is vital because a system is only as good as the degree of control that it affords over accuracy.

Besides controlling accuracy, the Automatic Audit Sheet is the means of determining that all postings have actually been made each day; that the credit limit of any account has not been exceeded; it also acts as a Trial Balance Sheet when transferring open balances to the new Statements at the beginning of each month.

It is, in fact, a daily newspaper of all transactions, showing complete, condensed up-to-the-minute information without reference to the Ledger Accounts or other records. An extra copy can be sent to the business executive who is away from his office, and copies can be mailed by branch offices to their head office. Lastly, should a ledger sheet be lost, or ledgers destroyed by fire, an account can be reconstructed from the Automatic Audit Sheets.

From this explanation it will be seen that there is nothing to do at the end of the month but mail the Statement to the customer. Each customer's Statement was prepared simultaneously with the posting of the entries to the Ledger Account. Each Statement and Ledger Account was automatically balanced after each posting was made. Each day's work was proved correct each day.

Therefore, when the last day's transactions are posted and proved, the Statements are ready to go into the mail without any of the extra work that is usually associated with the end of the month. The last day's work is the same as that of any other day in the month.

Furthermore, because of the daily control over accuracy, Trial Balance troubles are entirely eliminated. This daily control makes unnecessary the usual procedure of waiting until the end of the month to determine whether or not the books are in balance, and, in the event of error, obviates the checking of the whole month's work in order to locate any error made.

Typewriter Models

The typewriter models consist of an ordinary typewriter with a separate adding, subtracting, and checking mechanism built into it. The model has also a tabulator which enables the operator to move to the particular point of the pounds, shillings, and pence required to be written. A special feature of the model is that

Name *Mrs. G Adams,*
High Street, Kensington, W Sheet No

Old Balance	Date	No	Items	Debits	Credits	Balance	
	1928 July		Balance Forward			25 16 3	Mrs G Adams
*25 16 3	1	143	2 Prs. Silk Stockings				
			9s. 9d.	19 6			
			1 Navy Costume	3 3 6		29 19 3	*Mrs G Adams
*29 19 3	1	241	Cash		12 13 6	17 5 9	*Mrs G Adams
*17 5 9	1	222	1 Pr. Silk Stockings				
			Returned		7 8	16 18 1	*Mrs G Adams

STATEMENT

Mrs. G Adams,
High Street,
Kensington, W.

Terms : Cash Strictly Net.

Outstanding 4 months	Outstanding 3 months	Outstanding 2 months	Outstanding 1 month	Balance
5 12 6	8 12 6	3 7 9	8 3 6*	25 16 3

OldBalance	Date	No	Items	Debits	Credits	Balance
	1928 July					
*25 16 3	1	143	2 Prs. Silk Stockings 9/9	19 6		
			1 Navy Costume	3 3 6		29 19 3
*29 19 3	1	241	Cash		12 13 6	17 5 9
*17 5 9	1	222	1 Pr. Silk Stockings Returned		7 8	16 18 1
			The last amount in	balance colu	mn is amount	due

This Statement is a complete record of your account for the month The final balance on last month's statement is brought forward at the beginning of this statement Your purchases are shown in the Debit Column Returns, allowances and cash paid are shown in the Credit Column. The amounts in the Balance Column indicate the standing of your account after each transaction

PROOF SHEET OF DEBITS

Old Balance	Date	No	Items	Debits	Credits	Balance			Check Balance
	1928 July								
* 25 16 3	1	143	2 Prs Silk Stockings 9/9	19 6					
			1 Navy Costume	3 3 6		29 19 3	*Mrs G Adams		
* 31 17 6	1	156	4 Prs Silk Stockings 8/11	1 15 8					
			1 Hat Trimmed	1 11 6		35 4 8	*Mrs L Ballard		
* 142 16 3	1	147	3 Dz Handkerchiefs 6/6	19 6					
			6 Yds Ribbon 1/9	10 6		144 6 3	*Mrs.B Carter		
* 5 19 10	1	139	1 Velour Hat	2 15 11					
			1 Velour Coat	12 12 6		21 8 3	*Mrs P Danner		
* 12 15 6	1	142	1 Evening Gown	13 13 6					
			1 Pr Silk Stockings	16 6		27 5 6	*Mrs Everard		
* 5 18 7	1	162	2 Prs Silk Stockings 9/9	19 6					
			2 Prs Suede Gloves 7/9	15 6		7 13 7	*Mrs. F Firth		
* 13 13 6	1	165	2 Velour Hats 15/9	1 11 6					
			1 Costume	9 9 6		24 14 6	*Mrs G Goddard		
* 12 18 7	1	150	1 Evening Gown	13 13 6					
			1 Pr Silk Stockings	19 6		27 11 7	*Mrs Harris		
* 18 18 8	1	152	3 Prs Gloves 9/11	1 9 9					
			4 Dz Handkerchiefs 6/11	1 7 8		21 16 1	*Mrs James		
*** 270 14 8**				**69 5 –**		**339 19 8**	***Proof of Totals**		
						6,431 17 6	*Ledger Control		
*6,362 12 6	1		Goods	69 5 –					

PROOF SHEET OF CASH AND DISCOUNTS

Old Balance	Date	No.	Items	Debits	Credits	Balance				
	1928 July									
* 29 19 3	1	241	Cash		12 13 6	17 5 9	*Mrs G Adams			
* 35 4 8	1	239	Cash		18 18 3	16 6 5	*Mrs L Ballard			
* 144 6 3	1*	245	Cash		18 19 8	125 6 7	*Mrs B Carter			
* 21 8 3	1	240	Cash		6 18 10	14 9 5	*Mrs P. Danner			
* 7 13 7	1	246	Cash		6 11 8	1 1 11	*Mrs F Firth			
* 24 14 6	1	238	Cash		15 5 9	9 8 9	*Mrs. G. Goddard			
* 27 11 7	1	242	Cash		4 2 6	23 9 1	*Mrs Harris			
* 18 18 8	1	237	Cash		12 6 6	6 12 2	*Mrs. Howell			
* 21 16 1	1	244	Cash		13 16 2	7 19 11	*Mrs James			
*** 331 12 10**					**109 12 10**	**222 0 0**	***Proof of Totals**			
*6,431 17 6	1		Cash		109 12 10	6,322 4 8	*Ledger Control			

PROOF SHEET OF GOODS RETURNED

Old Balance	Date	No.	Items	Debits	Credits	Balance			Check Balance	
	1928 July									
* 17 5 9	1	222	1 Pr Silk Stockings Returned		7 8	16 18 1	*Mrs G Adams			
* 16 6 5	1	225	1 Hat Trimmed Returned		13 6	15 12 11	*Mrs L. Ballard			
* 125 6 7	1	224	1 Dz Handkerchiefs Returned		6 8	124 19 11	*Mrs B Carter			
* 14 9 5	1	226	1 Velour Hat Returned		1 11 9	12 17 8	*Mrs P. Danner			
* 9 8 9	1	225	1 Velour Hat Returned		19 6	8 9 3	*Mrs. G. Goddard			
* 7 19 11	1	227	1 Dz Handkerchiefs Returned		5 6	7 14 5	*Mrs James			
*** 190 16 10**					**4 4 7**	**186 12 3**	***Proof of Totals**			
*6,322 4 8	1		Goods Returned		4 4 7	6,318 0 1	Ledger Control			

Name Operator's Ledger Control

Sheet No

	Old Balance	Date	No	Items	Debits	Credits	Balance		
		1928 July		Balance Forward			6,362 12 6	*Ledger Control	
	*6,362 12 6	1		Goods	69 5 0		6,431 17 6	*Ledger Control	
	*6,431 17 6	1		Cash		109 12 10	6,322 4 8	*Ledger Control	
	*6,322 4 8	1		Goods Returned		4 4 7	6,318 0 1	*Ledger Control	

the typist does not make any calculations, the additions, subtractions, and totals are obtained by depressing the appropriate figure keys.

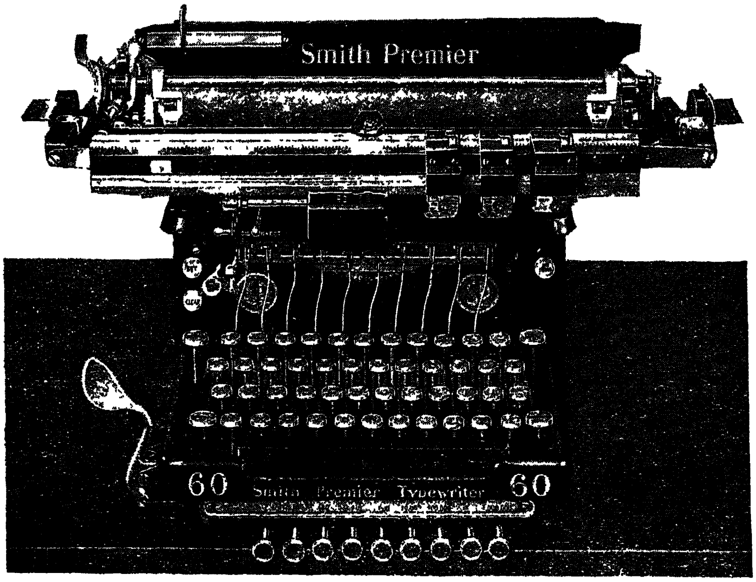
Smith Premier Accounting Machines

The three Smith Premier Accounting Machines are examples of such models.

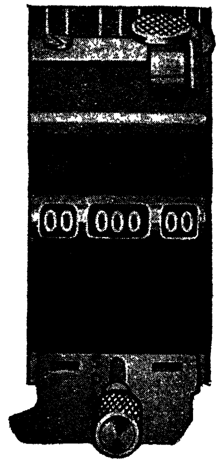
The VERTICAL ACCOUNTING MACHINE eliminates the adding and subtracting from all kinds of office work. It is of the greatest assistance in invoicing, preparing statements, typing of the machine. The machine is not limited to adding and subtracting in sterling only. Totalizers of any capacity can be obtained for sterling, numerals, weights, lengths, and so on. Different kinds of totalizers can be used on the machine at the same time.

Another advantage of the machine is that it can be changed over from one kind of work to another in a very few moments.

Above all, the results are obtained with speed and accuracy.



THE SMITH PREMIER VERTICAL ACCOUNTING MACHINE



STERLING TOTALIZER

cheques and receipts with Cash Book, and also any other work where typing and adding come together. It adds and subtracts as it types, and by this combination of operations it saves time.

The use of the machine is simplicity itself. Anyone, say the makers, can learn to operate a Vertical Accounting Machine in half an hour. The operator merely types the descriptive matter and figures as on a typewriter, and the amounts are automatically totalled by the machine as they are typed. The accumulating totals are clearly shown in the registers in front of the machine.

Subtraction is done by moving a simple little lever, then typing in the ordinary way. The amounts subtracted may be typed in red if desired, the change of colour being made by the same movement of the lever.

Mention must also be made of the adaptability

The "G" CROSS ACCOUNTING MACHINE is the largest carriage machine of its kind. It takes paper up to 32½ in. wide, and writes across 30½ in. Columns of figures can be added and subtracted vertically and across, over all or any part of the writing spaces. Its special use is for wide statistical forms, wages sheets, analysis forms, and so on.

The reason why it is possible to construct a Smith Premier Accounting machine with the largest carriage that can be made, lies in the rigid construction of the carriage. It has a side movement only; to type a capital letter the shift key moves the type basket only instead of lifting the carriage. This applies to machines of all carriage lengths, and the result is a superior carriage design—stronger, lighter, and more rigid.

Wide carriage cross and vertical accounting machines can be obtained for any work where

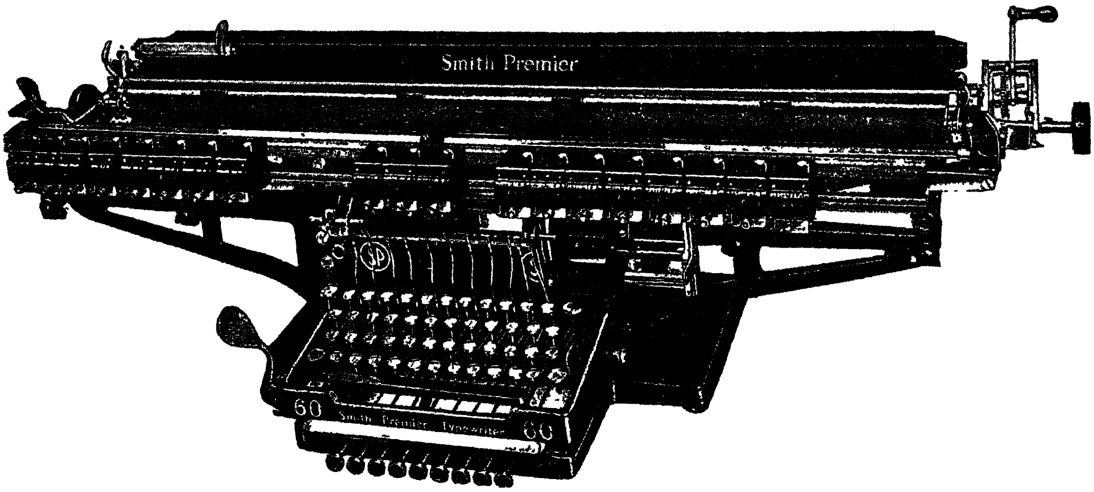
casting and proving must be done, all the adding and subtracting being automatically completed as the work is typed. The columns of figures may be in any position on the forms. All machines can also be electrically equipped.

The CROSS ACCOUNTING MACHINE (ELECTRIC MODEL) exactly meets the modern demand for up-to-date and reliable information It provides immediately the figures by which the business is controlled.

The Cross Accounting Machine simplifies and proves the accuracy of the fol owing kinds of work—ledger posting, preparing statements, posting ledger and statement together, ledger control accounts, all forms of invoicing, Cash Book, cheques and receipts, stock accounts, and stock records, sales analyses, general analysis work, wages sheets, and pay slips, distributions, statistical work, etc.

As the work is typed the machine automatically accumulates the amounts both vertically and across, so completing and proving the adding and subtracting as the work proceeds. The cross totals are proved and shown line by line.

These may be the balances of ledger accounts or the totals of invoices. The totals accumulated vertically provide the control figures for linking up one section of the work with another, and proving each section separately. So the invoicing is proved against the ledger posting and vice versa, the sales analysis against the invoicing, Stock Accounts against the Purchase Day Book, and so on. The system is completely linked up.



THE SMITH PREMIER CROSS ACCOUNTING MACHINE

THE SMITH PREMIER CROSS ACCOUNTING MACHINE (ELECTRIC MODEL)

The three chief features of the cross accounting machine are—

1. It adds and subtracts in any number of columns vertically and across.
2. It has a complete typewriter keyboard with visible writing.
3. There is automatic proof of accuracy.

The ESTEMA FLAT FEED ACCOUNTING MACHINE makes it possible to prepare a group of forms of different sizes at one operation and feed them to any alignment and any position on the carriage.

It makes no difference if the entry has to appear at the top of one form, half way down the next, at the foot of another, and so on, the Estema ensures the accurate alignment of each.

The accounting mechanism completes the adding and subtracting of the forms as the amounts are typed. All the vertical and cross totals are automatically shown by the machine.

The purpose of the Estema is to combine operations that are now being done separately. The machine is specially suitable for banking, insurance, and commercial offices.

All the above machines are fitted with a locking device. By this ingenious contrivance, if a mistake is made in the work, the machine automatically locks. The error must then be found and corrected before operations can be resumed. Having previously given some account of the machines, we will now deal with some specimens of their work.

SPECIMENS OF LEDGER WORK. The three units of the system are—

1. Ledger Account.
2. Ledger Control Account.
3. Master Control Account.

The balance column in the Master Control card shows the total of all outstanding accounts in all the Ledgers.

The debit and credit columns in the Ledger Control card show the daily totals of postings.

The balance column in the second card shows the daily total of outstandings in individual Ledger.

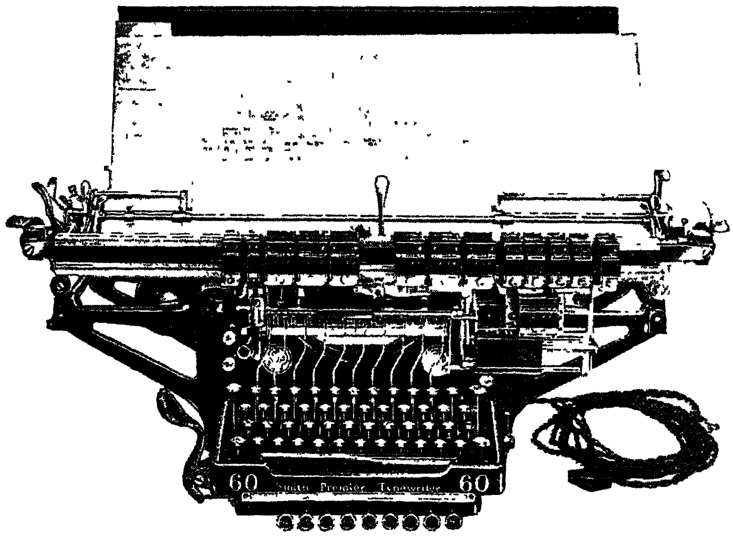
The balance column in the third card shows the daily balance of account. (See page 685.)

LEDGER AND STATEMENT PREPARED SIMULTANEOUSLY. This method does away with the separate preparation of the statements and the calling back with Ledger. It saves valuable time at the end of the month.

The Accounting Machine proves the complete accuracy of the Statements. The balance of £69 8s. 4d. in the illustration on page 686, is transferred to the Statement at the end of the month, and the total of all the balances is accumulated by the Accounting Machine as they are typed. The final total must agree with the Ledger Control Account.

The Statement may show the balance after every posting if desired. This method saves transferring balances at the end of the month.

SALES ANALYSIS. On page 687 is a specimen of Sales Analysis.



THE ESTEMA FLAT FEED ACCOUNTING MACHINE

MASTER CONTROL ACCOUNT.

NAME

Address

Account No

Pick up Balance	Date	Description	Fol.	Debit	Credit	Balance
	1928.					
	Jan. 1	No. 1 Ledger		17366 13 6		
		2		11960 1 1		
		3		25811 15 10		
		4		16005 0 8		
		5		27305 7 6		
		6			9380 18 6	
		7			11420 12 2	
		8			11211 13 10	
		9			7300 9 3	
		10			9214 6 0	51920 18 10

LEDGER CONTROL ACCOUNT.

NAME

Address

Account No

Pick up Balance	Date	Description	Fol.	Debit	Credit	Balance
	1928.					
		Balance From Old Ledger				16318 1 0
16318 1 0	Jan. 1	Total of Amounts Posted		1890 7 6	841 15 0	17366 13 6
17366 13 6	2	do.		1721 0 4	1119 7 10	17978 6 0
17978 6 0	3	do.		1530 15 11	2530 3 1	16979 2 10
16979 2 10	4	do.		2172 3 0	1001 4 0	18150 1 10
18150 1 10	5	do.		590 1 10	887 12 2	17852 11 6

LEDGER ACCOUNT.

NAME JAMESON & SONS LTD.,

Address 44, Lower Road, BERMONDSEY.

Account No

Pick up Balance	Date	Description	Fol.	Debit	Credit	Balance
	1928.					
	Jan. 1	To Goods	48	63 1 7		63 1 7
63 1 7	5	do.	50	81 4 2		
		do.	58	2 10 0		146 15 9
146 15 9	10	By Cash	17		61 10 1	
		Discount			1 11 6	83 14 2
83 14 2	24	By Cash	20		2 10 0	
		To Goods	82	49 5 6		130 9 8

Where the total of each line is known, the Accounting Machine proves the distribution and completes the casting—the star * is the visible proof that each line is analysed correctly. Each line is proved before proceeding with the next.

ANALYSED SUMMARY. On page 688 is a specimen of an analysed summary.

All the additions and subtractions, vertically and across, are automatically completed and proved as the figures are typed.

NAME BRIGHTWELL & CO. LTD.,

ADDRESS BIRMINGHAM

Date	Description	Fol	Debit	Credit	Balance	Pick-Up
1928.						
Jan. 3	To Goods	108	35 16 5		35 16 5	35 16 5
5	By Cash	36		12 5 1	23 11 4	23 11 4
6	To Goods	114	13 19 1		37 10 5	37 10 5
10	do.	132	6 0 0		43 10 5	43 10 5
16	do.	140	12 0 0		55 10 5	55 10 5
22	do.	156	10 0 0		65 10 5	
						65 10 5
Feb. 8	To Goods	1046	12 12 6		78 2 11	78 2 11
10	By Cash	146		60 0 0	18 2 11	18 2 11
17	To Goods	1100	8 9 2		26 12 1	26 12 1
23	do.	1103	3 0 0		29 12 1	29 12 1
25	do.	1107	12 17 0		42 9 1	42 9 1
26	By Cash	150		8 9 2	33 19 11	
						33 19 11
Mch. 7	To Goods	1120	6 5 1		40 5 0	40 5 0
9	do.	1123	8 1 0		48 6 0	48 6 0
14	do.	1126	45 1 9		93 7 9	93 7 9
16	By Cash	163		56 7 9	37 0 0	37 0 0
22	To Goods	1130	16 0 0		53 0 0	53 0 0
24	do.	1132	7 0 0		60 0 0	60 0 0
26	do.	1140	9 8 4		69 8 4	

MONTHLY STATEMENT.

Smith Premier Typewriter Co Ltd.,
6 & 7 QUEEN STREET,
LONDON EC4

Messrs. Brightwell & Co. Ltd.,
Birmingham.

Date	Description	Fol	Debit	Credit
1928.	To A/c Rendered		33 19 11	
Mch. 7	To Goods	1120	6 5 1	
9	do.	1123	8 1 0	
14	do.	1126	45 1 9	
16	By Cash	163		56 7 9
22	To Goods	1130	16 0 0	
24	do.	1132	7 0 0	
26	do.	1140	9 8 4	
	To Balance		£69 8 4	

There cannot be a mistake in either the cross or the vertical casting if it is done on this accounting machine.

Every column is automatically added by the machine.

Sub-totals can be obtained where wanted. Cross additions and cross subtractions are equally automatic, the cross total being the net difference.

The total of each line is unknown on this

SALES ANALYSIS.

DATE ...31st.January.1928....

Name	Fol.	TOTAL.	A	B	C	D	E	F
Atkinson, J. & Sons	120	2347 15 0	127 6 5	348 12 0	986 1 3	340 0 0	126 17 10	412 17 0*
Blake, K. & Co. Ltd	121	800 0 0	100 0 0	100 0 0	100 0 0	100 0 0	100 0 0	300 0 0*
Bullman, H. & Sons	122	764 13 2	456 0 0			200 0 9	108 12 5*	
Coates, L.	123	983 12 6		773 17 0		78 17 9		130 17 9*
Cullum, R. & Sons	124	765 2 9	54 8 7		543 0 0		167 14 2*	
Dawson, N. & Co.	125	87 12 10		34 5 6	24 5 9	29 1 7*		
Duncan, J.	126	347 8 3	45 0 0	34 12 9	66 7 10			201 7 8*
Duskin, M.	127	895 0 0				695 6 11		199 13 1*
Foster, H. & Son	128	3451 12 3	1098 6 5	267 8 4	679 9 10	873 2 1	520 18 4	12 7 3*
Green, G. & Co. Ltd	129	287 6 5			287 6 5*			
Harris, L. & Son	130	764 3 2	98 5 3	453 9 0		212 8 11*		
Harvey, M.T.	131	87 6 4					87 6 4*	
		11581 12 8	1979 6 8	2012 4 7	2686 11 1	2534 18 0	1111 9 1	1257 3 3*

ANALYSED SUMMARY.

Name	A	B	C	D	E	F	TOTAL
Cambridge	23 14 0	60 0 0	79 15 0	6 0 0	56 7 8	120 0 0	345 16 8
Doncaster	265 1 5	90 18 6	45 6 8		98 13 5		500 0 0
Darlington		378 12 4		3000 0 0			3378 12 4
Falmouth	523 8 9		66 0 0		10 0 0	33 0 0	632 8 9
Hereford		111 10 2		278 9 10			390 0 0
Liverpool	14 7 3		12 4 6		6 0 0	34 16 7	67 8 4
Monkseaton				99 0 0			99 0 0
Northampton	13 10 0	50 18 10	209 0 0	90 0 0	77 0 0	542 3 7	982 12 5
Portsmouth	129 17 2		300 0 0	90 0 0		90 0 0	609 17 2
Stoke-on-Trent		122 19 0			200 0 0	567 9 0	890 8 0
Uxbridge				89 3 2			89 3 2
York	100 0 0	100 0 0	100 0 0	100 0 0	100 0 0	100 0 0	600 0 0
	£1069 18 7	914 18 10	812 6 2	3752 13 0	548 1 1	1487 9 2	8585 6 10

specimen until shown by the Accounting Machine. The operator merely types the figures and the machine—

1. Shows the cross total of each line.
2. Accumulates the total of each column.
3. Proves that all the correct totals are filled in.

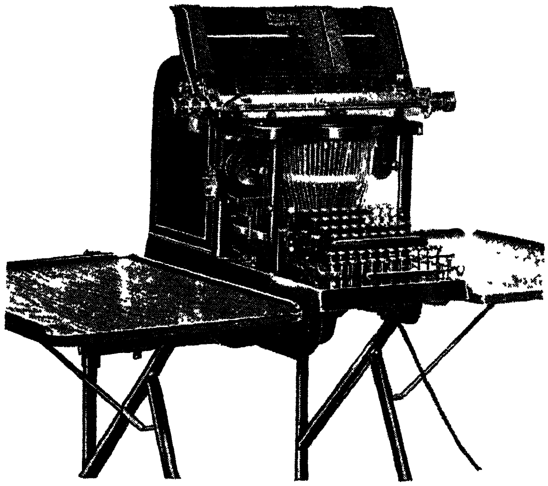
Burroughs Moon-Hopkins Machine

Besides the above machines there is also the Burroughs Moon-Hopkins Typewriter Accounting Machine, which combines an electrically operated adding-subtracting mechanism with a standard typewriter. It retains all the automatic features associated with the name of Burroughs. The totals or balances are printed directly from the computing mechanism by the depression of a single key. The operator does not have to copy them, and consequently cannot write a total incorrectly. Outstanding items such as overdrafts or credit balances are automatically signalled, computed, and printed in red, while punctuation and tabulation for all sterling amounts is automatic, irrespective of the value to be written. The full date can be printed in any desired position by merely depressing a single key.

Statistical Machines

The machines that have just been mentioned are book-keeping machines simply, they are used for the ordinary operations of invoicing, posting to the Ledger, etc., but there is quite a large amount of other information that is not strictly book-keeping, but which is of the greatest utility to the head of the business, information that is of a statistical nature, such as comparisons of sales between different districts, comparisons of total sales between different periods, etc., that can be obtained by the use of machines. Some of this information could be obtained by the use of the machines previously mentioned, but where the information required consists of a number of separate factors which require to be tabulated in a number of different categories, then other machines are necessary. For instance, supposing we wish to know the amount of the sales made by a traveller in his district, the total quantity of the commodity sold in the period, and also the amount of sales made to any one customer in a year, then unless special machines are used, it would be almost impossible in a large business to obtain the information quickly. To obtain this information readily it must be recorded in such a way that each answer may be found from the same source by successive sortings and additions.

There are two kinds of machines that will do this, namely the Hollerith and the Powers machines. Each kind uses as a first record, a punched card on which figures are represented by holes, but in the tabulating machine, one system works mechanically, while the other uses electricity. Each system is described separately in the following pages.



BURROUGHS MOON-HOPKINS TYPEWRITER ACCOUNTING MACHINE

The Hollerith Electrical Machine

The Hollerith Electrical Machine is a tabulating and accounting machine which does its work with remarkable speed and accuracy.

In modern business the business accountant is constantly being called upon to supply for the business executive detailed information concerning manufacturing costs, or the running or working and results of an organization or business. He is developing more and more into a statistician. He has to classify and analyse figures, to draw up comparative statements, to compile statistics of various kinds so that figures may be studied from widely different points of view ; and he has to do this in the minimum of time and with absolute accuracy.

The Hollerith Electrical Machine does not supersede the accountant. It frees him from the irksome task of detailed analysis, and does away with the necessity for the copying and recopying of the same groups of figures. It

renders him valuable assistance by automatic classification and analysis, in minutest detail if necessary, and by quick and accurate compilation of numerical results. And, further, it can be adapted to the accounting methods that already obtain in any commercial, mercantile, municipal, or government works, institution, or office.

The Hollerith equipment comprises a card, a key punch, a verifying punch, and two machines, namely a sorter and a tabulator.

CODING. In order that the data on original documents may be *mechanically* used for the purpose of analysis, they must be previously coded, that is, translated into numerals. The data are then transferred to Hollerith cards by means of punched holes.

All accountancy data can be translated into numerals, provided a numerical index or code is constructed by means of which each workman or commodity, or stores item, or transaction can be identified.

The principle of the code depends upon the way in which the business is organized, and also upon the nature of the information which the accountant requires in order to compile his records or statements.

The basis of the Hollerith system is the perforated card, it being necessary to punch a separate card for each item.

The Hollerith Wages Card, illustrated above, shows, for example, in cols. 18–22 a five-figure code, the item represented being Expenditure on Maintenance and General Wages. The first two figures, cols. 18 and 19, denote the Main Account, and the next three columns, 20–22, the particular item of maintenance against which the expense was incurred.

THE HOLLERITH CARD. The size of the Hollerith card is $7\frac{3}{8}$ in. by $3\frac{1}{4}$ in., and it contains 45 vertical columns of printed numerals from 0–9.

These 45 columns can be arranged to provide for whatever kind of information the accountant of each individual business decides it is necessary to obtain.

The figures included in the vertical columns are called "fields." A field may occupy several columns if they are necessary to get the required information. The name of the field indicates the nature of the information contained in it, as month, job number, department, quantity, value, and so on.

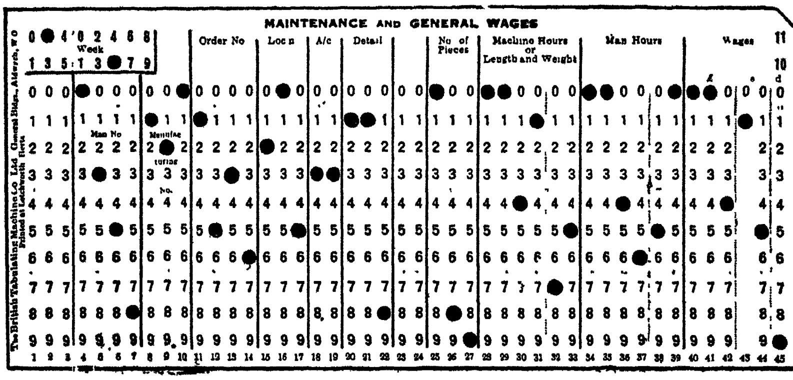
By drawing vertical lines, the plain card of 45 vertical columns is automatically turned into a statistical record of great adaptability.

When the card is perforated or punched, it is really a translation into numerical code of the data on the original record, whether time sheet, invoice, stores requisition, or any other document.

Once the card has been punched, the information contained therein can be analysed and re-analysed in any desired form without having further reference to the original record.

Dual Cards are in use in many businesses. A Dual Card is a Hollerith card used not only as an original document, but also as a punched record, as, for instance, a Stores Requisition and Issue Voucher. The goods required would be requisitioned in the usual way; the issue of the goods, the pricing, the extension, and allocation would then be made and coded, and the card passed on for punching as a Hollerith record.

The Dual Card lessens the risk of error in the transaction, as there is only one record to



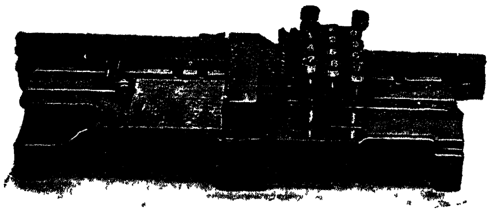
HOLLERITH WAGES CARD

handle; it also reduces the expenditure on stationery to a minimum.

THE KEY PUNCH. The Key Punch is a hand-operated machine, size 15½ in. by 5½ in. by 5 in. It is used for making the perforations in the Hollerith card.

A junior girl clerk, after a month's practice, can punch 300 cards per hour.

It contains fourteen keys Twelve of the keys set in motion the sharp knives which cut holes



HOLLERITH CARD KEY PUNCH

in the card in definite positions. The thirteenth key does not perforate but is used for spacing.

The machine is fitted with a carriage on which the card is fixed. When a key is depressed, the carriage moves forward, so that the card is correctly placed for punching the next figure. By depressing the fourteenth key, the carriage may be brought back to its original position.

VERIFYING KEY PUNCH. The Verifying Key Punch is used to make certain that the holes have been punched in their correct positions on the card. Unlike the Key Punch, the keys do not actuate knives but only blunt plungers.

A second operator takes the original records and the punched cards, and goes over the same ground as before. As the plungers do not cut, they can only go through holes already made. If, therefore, either operator has made a mistake the carriage will not move forward. By this means a mistake can be detected and rectified.

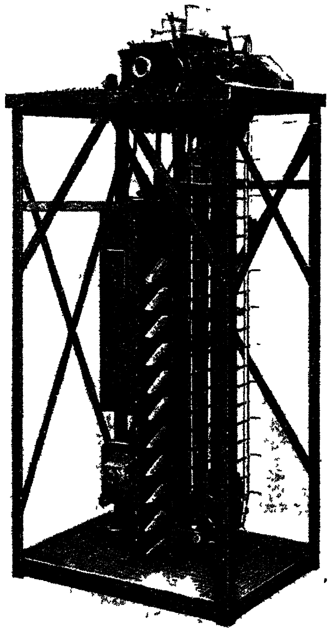
After this mechanical proof of accuracy of the information punched, the subsequent work can be regarded as absolutely reliable.

ELECTRICAL PUNCHES. Two new types of punches have recently been introduced, namely, an electrical key punch and an electrical duplicating punch. The operator establishes electrical contact by merely depressing the cutting keys very lightly. The advantage of the electrical punches is that the work is done with much greater speed and with far less fatigue to the operator.

The Duplicating Punch, as its name implies, is used for automatically reproducing a number of cards on which repetitive information is required from one original Master Card. All of the card, or only a portion of it, can be reproduced at will.

THE SORTING MACHINE. The Electrical Sorting Machine has a measurement of 24 in. by 30 in. by 60 in., and a speed capacity of 275 cards a minute or 16,500 an hour.

The object of the machine is to place the



HOLLERITH SORTING MACHINE

punched cards in whatever order or arrangement is required, as job number, department, workman, expense account, and so on.

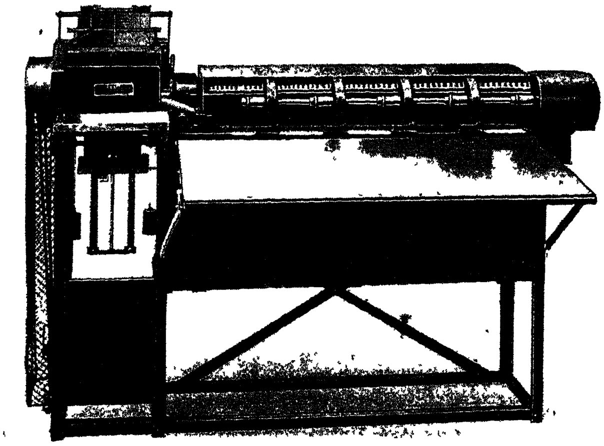
The machine sorts one column at a time. For sub-classifications or divisions repeated sortings are necessary, the cards being put through the machine as many times as is necessary.

The punched cards are placed in a hopper at the top of the machine. A metal brush is set opposite the columns to which it is desired to sort. The cards are automatically fed through an opening, a trifle wider than the thickness of the card, by a horizontal bar with a knife edge which moves up and down.

As the card descends, the metal brush causes electrical contact through the punched hole in the column to which it has been set, and a

selecting device, timed to act with the passage of the card through the machine, controls the destination of the card and causes it to fall into an appropriate box on the machine.

The latest type of sorting machine is of the horizontal type, and sorts cards at the rate of 24,000 per column per hour, and is silent in operation. There is a special device fitted that stops the machine automatically when any pocket becomes full of cards, thus lessening the amount of supervision required.



HOLLERITH AUTOMATICALLY CONTROLLED NON-PRINTING TABULATOR

THE TABULATING MACHINE. The Tabulating Machine is the machine that puts the final touches to the work of the punchers and sorters. The tabulator is not a calculator in the generally accepted sense of the word; it merely analyses and adds.

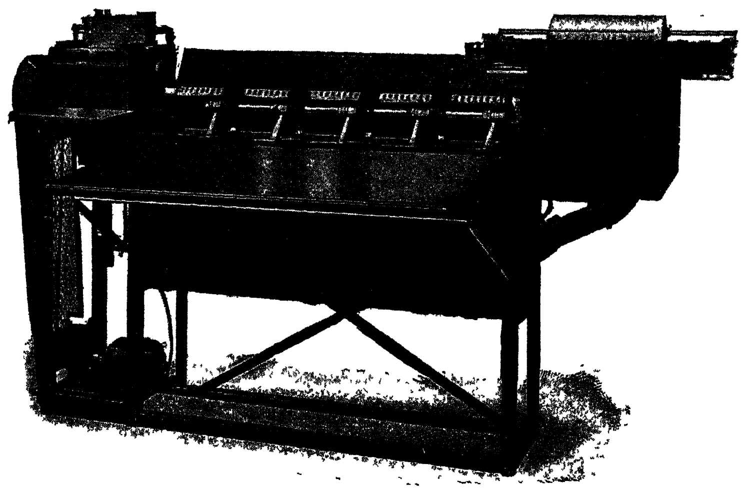
On its counters are tabulated at one and the same time the particulars concerning time, quantity, value, or whatever else may be required As in the case of the sorting machine, the cards are automatically fed from a hopper.

Electrical tabulation is performed by causing electrical contact at various points controlled by the holes on the cards, the position of the holes governing the results produced by the tabulator.

The electrical tabulators have three or five counters, which may be worked separately or simultaneously. They may be compared with three or five adding machines, each working separately and obtaining three or five totals at one operation. In the latter case forty columns can be added at the same time.

The tabulator has a speed capacity of 9,000 cards an hour, and a machine with five counters can thus add 45,000 items an hour. There are three kinds of electrical tabulators—

1. The standard tabulator.
2. The automatically controlled non-printing tabulator.
3. The automatically controlled total printing and listing machine.



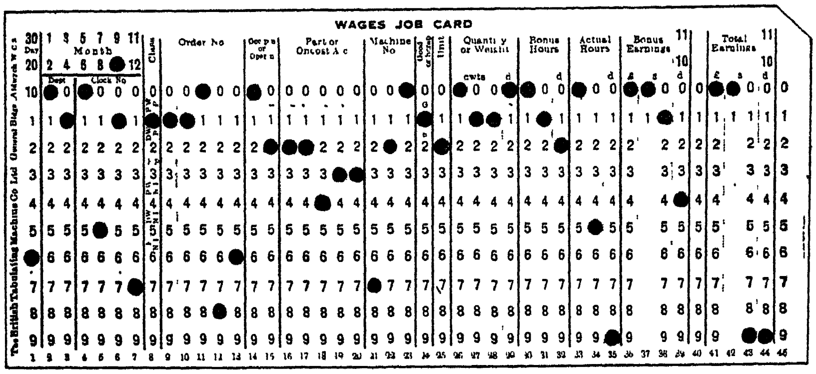
HOLLERITH AUTOMATICALLY CONTROLLED TOTAL PRINTING AND LISTING TABULATING MACHINE

On page 692 will be found illustrations of the second and third types of tabulators.

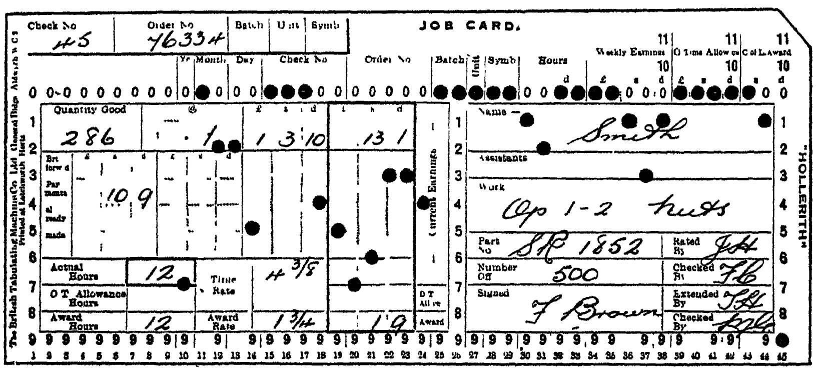
AUTOMATIC CONTROL. The automatic control device is of paramount importance to the accountant.

The great difficulty with all analysis is the uncertainty whether the amounts have been placed in their proper columns in the tabulated result. A corresponding parallel with the Hollerith system is the necessity for ensuring that cards of each denomination are collected into their proper groups.

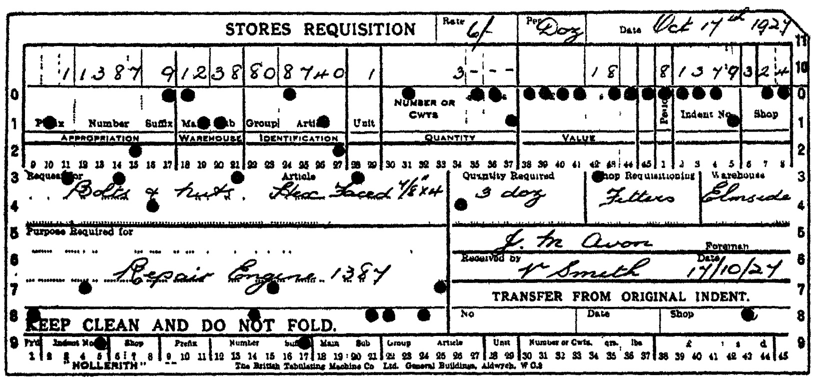
In the ordinary way, errors in dissecting are not revealed except by investigation, because



HOLLERITH CARD No. 59



HOLLERITH PUNCHED CARD No. 18,816



HOLLERITH DUAL CARD

the grand total agrees with the sum of the separate totals.

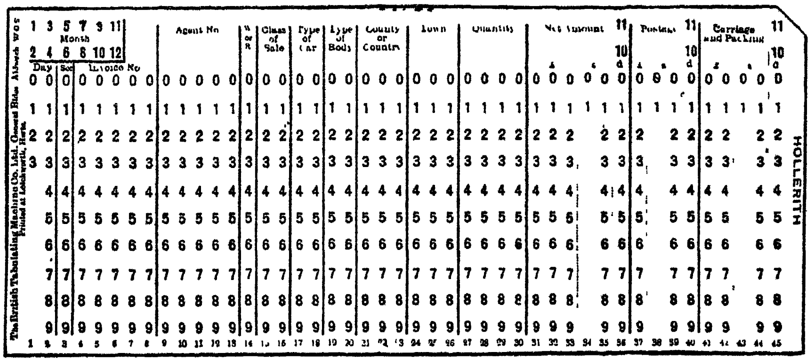
This is impossible in the Hollerith tabulator. If cards from one group have inadvertently been included in another group, the machine would go on tabulating the cards of the one group, but the moment it came to the cards of the other group, it would stop, register the total of the cards of the first group, and then proceed to deal with the cards of the other group.

The procedure furnishes an effective control of analysis, and an automatic check of postings, thus revealing compensating errors, which, as every accountant knows, often entail a lot of calling over before they can be located.

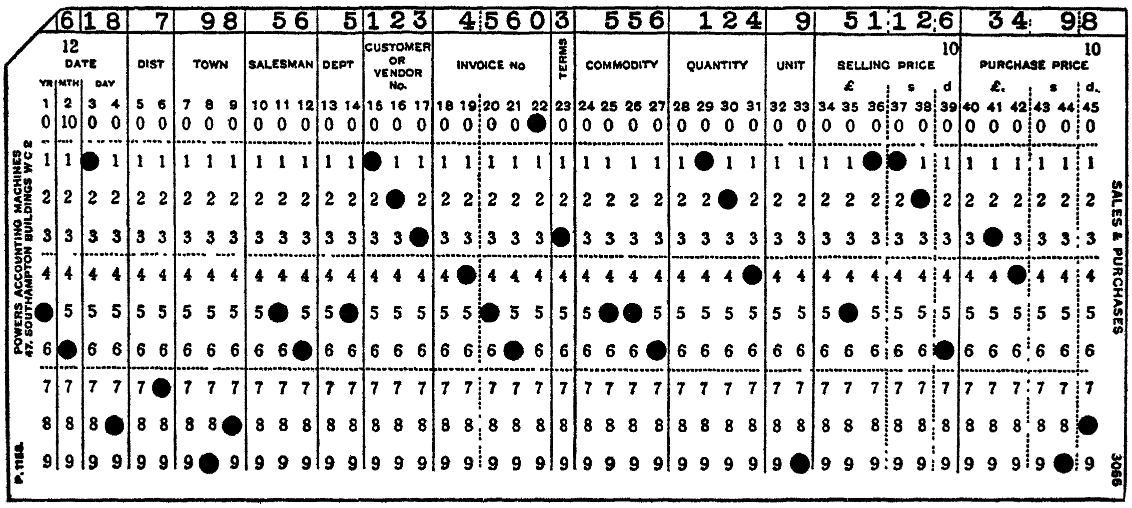
Application of Hollerith Methods to Accounting. Below will be found some illustrations of the application of Hollerith methods to accounting purposes.

In most factories or works, wages have to be analysed and allocated to the particular work done.

Specimens of Wages cards are given on page 693.



Hollerith Sales Card

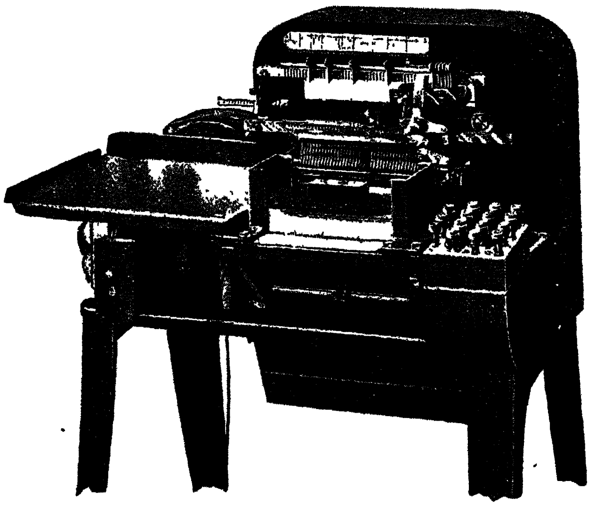


Powers Sales Card

Hollerith Card No. 18,816 (on page 693) is a typical Dual Card and shows the following information—

Check No.
Order No.
Batch.
Unit.
Symbol.
Name.
Quantity Good.

Actual Hours.
O.T. Allowance Hours.
Award Hours and Rate.
Weekly Earnings.
Overtime Allowance Amount.
C. of L. Award.



THE POWERS PUNCHING MACHINE

It will be observed that the essential information is not only written on the card but is also punched on the card as well.

Every reader of the present volume will remember the vast amount of detail required in connection with the correct recording, issue, and allocation of stores and materials, especially in the case of Cost Accounts. A specimen of a Stores Requisition Card is given at the bottom of page 693.

As regards purchases and sales, mention has already been made of the great necessity in some businesses for the correct dissection both of purchases and sales. A specimen of a Sales dissection is given on page 694.

Powers Machines

Powers machines make use of a mechanical method of operation by means of a card into which holes are punched to represent the fact.

The mobility of the item of account is the principle utilized. Just as the individual notes of a piano are used again and again to produce different refrains by altering the combinations, so are the item bearing Powers cards used repeatedly in combinations to produce different accounts. At one time the requirement may be an analysis down to minute detail of a cost of production, at another the building up of main accounts by the accumulation of detail.

THE CARD. By Powers methods each item will be punched on a separate card allowing the maximum mobility. The sorting and tabulating may then be performed mechanically at speeds which cannot be approached by any other method.

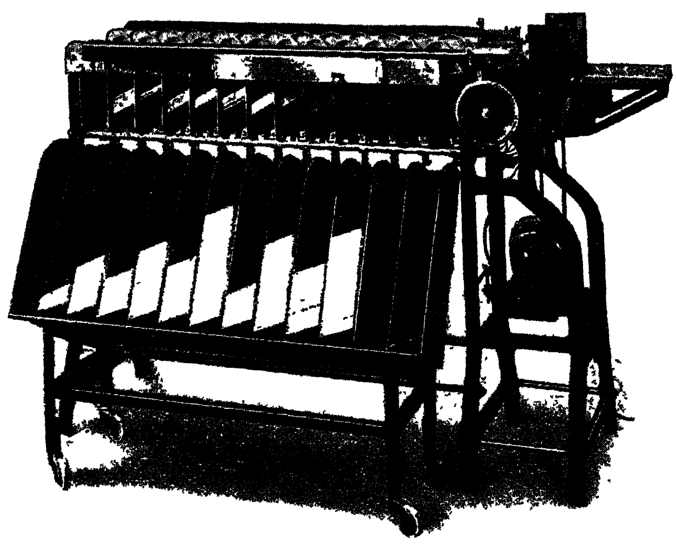
A specimen card is illustrated on page 694, which reads—

Date 18th June, 1925, District 7, Town 98, Salesman 56, Department 5, Customer 123, Invoice Number 4560, Terms 3, Commodity 556, Quantity 124, Unit 9, Selling price £51 12s. 6d, Purchase price £34 9s. 8d.

PUNCHING. Several types of punching machines are used so that every variation in requirements is catered for.

The Automatic Key Punch is illustrated above.

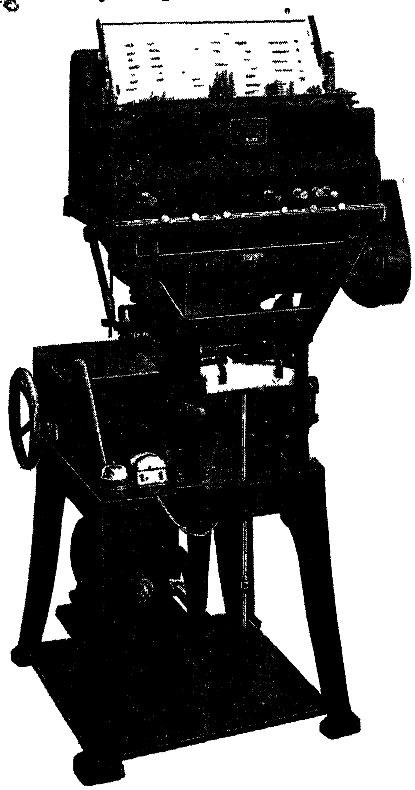
This combines many automatic features, and is the machine used for high speed quantity work. The Printing Punch is a hand fed machine which prints along the top of the card the value of the holes punched, the actions of punching



THE POWERS SORTER

and printing being simultaneous. This provides visual verification as illustrated in the card.

Letters may be punched and reproduced as



THE POWERS PRINTING TABULATOR

well as figures, so that the name of the client or commodity may be included where desired.

SORTING. After punching it is necessary to place the cards in the order or sequence required for tabulation. For instance, in the card the value of goods sold by each traveller in consecutive Invoice Number may be the first requirement.

The Powers Sorter performs this function at upwards of 20,000 cards per hour, one card column at a time. Thus the item traveller would require three sorts if there were one hundred salesmen or more.

TABULATING. Finally, the Printing Tabulator reproduces the punching in the cards in a clearly legible form and entirely automatically. It will total on all of the seven adding machines, subtract and decode the numerical designation, performing in fact all the functions of accountancy rapidly and accurately.

The Powers method brings within commercial practice a much finer analysis than is possible by hand methods, and the figures are produced immediately after the close of the period to which they relate.

One feature which interests all those interested in the psychological aspect of industry, is the elimination of clerical drudgery which is effected by such a method. The totalling of endless rows of figures and the posting of numerous items of account do not appear to be the highest attainment of the human mind; these should be eliminated from office routine and relegated to the untiring mechanism.

The scientific application of machinery has not been so intensive in the office as it has in the factory. No one can say that the conditions of the worker are worse to-day than they were fifty years ago. Consequently nothing but good is to be expected from the efficient use of office machinery.

APPENDIX

BUSINESS TERMS AND PHRASES

Above Par. When the price of stocks and shares and other securities is *higher* than that originally paid for them, they are said to be *above* par (or at a *premium*).

Account. In commerce, a statement showing the amount due by one person to another for cash, goods, etc. On the Stock Exchange, the period which intervenes between one Settlement and another. Buying "for the Account" means, therefore, buying for delivery on the next fortnightly Settlement which follows the date of purchase.

Account Days. Days set apart by the Stock Exchange Committee for the settlement of bargains entered into by the members.

Account Stated. An account between parties showing a balance which has been agreed upon. When any party to an account stated seeks to impeach its truth the burden of proof lies upon him; whereas in an open account the rule is the exact opposite.

"Act of God." A bill of lading clause, meaning those perils or dangers of the sea which are beyond human power to control or oppose; such as where a vessel is caught by a sudden squall and capsizes, or is struck by lightning and disabled, or where a vessel founders in a storm, being at the time seaworthy, well manned, and ably commanded.

Actuary. An officer in a Life Assurance Company who makes the necessary calculations as to the probable duration of a life about to be insured (by which the premium is regulated), and advises generally on all questions relating to the statistics and finance of the concern.

Administrator. A person appointed by the law for the purpose of winding up the estate of a person who dies intestate, or leaving a will but not appointing an executor therein.

Ad Valorem. According to the value, and not to the weight or quantity. The Customs *ad valorem* duty is, therefore, a charge of so much per cent made on the *value* of certain articles, irrespective of their weight or quantity.

Advance Notes. These are drafts on the owners of a ship (usually for one month's wages), issued by the captain to the seamen on their signing the Articles of Agreement. They are generally made payable three days after sailing, and are granted as a means of enabling a sailor to make some provision for those he leaves behind.

Adventure. A shipment of goods sent to an agent in some foreign country, to be sold at the best price obtainable. Merchants and manufacturers wishing to introduce their goods into a fresh market, usually send out a few consignments in this way, under a special mark, or brand, so that the quality may be tested and approved, in competition with other goods already known there.

Agenda. A list of business to be done. This is a heading generally used by public companies when calling a Board meeting or a meeting of their shareholders.

Agent. An agent is one who is authorized to represent a principal, or one who buys or sells for another. Contracts and arrangements made by an agent are binding upon his employer or principal, provided they are made in the ordinary course of business, and are understood to be upon his principal's account.

Agent de Change. The French name for a stockbroker. The Agents de Change are the *official* members of the Paris Bourse. They are limited in number, and pay large sums for their seat in the "Parquet." The "Coulisse" is the *unofficial* market.

Allonge. A slip attached to bills of exchange, on which an endorser may sign his name in cases where there is no further room on a bill for fresh endorsement. It does not need a stamp.

Allotment Notes. A note drawn by seamen on the owners of a ship for a monthly payment of a portion of their wages (usually for half-pay) during the time they are away on a voyage, as a provision for their wives and families.

Amortisement. The redeeming of bonds or shares, by means of annual drawings from a sinking fund; or the complete extinguishment of a loan by a single payment out of some special fund set apart for that purpose.

Ante-date. To date any letter or document *before* the true time.

Arbitrage. Buying securities in one market, and selling them in another; for example, buying American railway shares in London, and simultaneously selling them in New York. Owing to constant fluctuations, to which, from a variety of causes, all securities are liable, one market may be selling the same shares cheaper than another, and then, by means of telegrams, a profitable arbitrage business might be conducted by buying the shares in the cheaper market, and selling them in the dearer one.

Arbitration. The settling of disputed matters in mercantile affairs by the decision of one or more neutral persons, called *Arbitrators*, who are nominated by those concerned, an equal number being chosen on either side. The arbitrators' decision, after being written out and signed by them, is called their "Award."

Arbitration of Exchange. This means calculating the *proportional* rates between two countries, through intermediate places, to see whether direct or indirect drafts and remittances are the more advantageous. For instance, a merchant here having to remit money to Paris at a time when the exchange is unfavourable, may find, on calculation, that it will be more advantageous to make the payment through Amsterdam to Paris, than to send it there direct. When only one intermediate place is concerned, it is termed *simple* arbitration, when more than one, *compound* arbitration.

Assay. Chemically testing and analysing pieces of metal, minerals, etc., to determine their purity, and ascertain the percentage of foreign matter.

Assign. To make over personal property, as by Deed of Assignment; or transfer to another by indorsement, those documents which convey a right to the money, property, or goods they represent.

Assignee is one to whom any right or property is assigned.

Assignment is—

1. A transfer of any personal property or right to another.
2. The document by means of which such a transfer is made.

Assigns. Any person or persons to whom an assignment is made.

At Call. A term referring to money deposited with bankers, and others, the repayment of which may be demanded without notice.

At Sight. A term used upon bills of exchange when they are payable on demand. Such bills do not require accepting.

Attachment. Laying an embargo upon, and prohibiting the sale or disposal of the money or goods of a debtor in the hands of third parties, pending the settlement of some claim against the owner.

Attested Copy. True or verified copy of an *original* document (not a copy of another copy) and examined or collated by two persons and certified as a true copy by a declaration to that effect signed by them and written on such copy. An attested copy must be stamped.

Attorney may mean—

1. One legally qualified to practise in a court of law;
2. One authorized by a document, called a *Power of Attorney*, to act on behalf of another, either generally, or for a special purpose.

Attorney, Power of, is a formal document, authorizing one person to act for, or on behalf of another. In business such documents are much used to obtain payment from persons in foreign countries without the necessity of the creditor appearing in person.

Average (Av.) A marine insurance term for adjusting the proportion of loss sustained by insurers.

Average Bond. A bond taken out by the captain of a vessel which has incurred a general average loss, and signed by the consignees of the cargo before any delivery is made to them, thereby binding them to pay their proportion of average as soon as it has been ascertained.

Average Clause. A clause in a marine insurance policy, which provides that some articles shall be free from average unless general, and that others shall be free from average if under a certain percentage named.

Average Statement. In marine insurance a statement made by a person called an Average Stater or Adjuster when the insured is claiming indemnity for loss. The statements of the averages are made previous to their being adjusted by the underwriters, and such statements are often of a most elaborate and intricate character, requiring great skill and experience in drawing them up.

Average Stater or Adjuster. A person skilled in marine insurance affairs, who, when the insured are claiming indemnity for loss, is employed to prepare statements of the averages previous to their being adjusted by the underwriters.

Back. An abbreviation of Backwardation (*q v.*).

Backed Note. (Sometimes called a "Broker's Order.") A shipping term for a Receiving Note which bears a shipbroker's endorsement giving authority for water-borne goods to be barged alongside a ship, and authorizing the officer in charge of her to receive the goods on board. The object of such endorsement is that no goods shall be taken on board for which freight has not been engaged, while it also serves to show who is responsible for demurrage, should any arise.

Backwardation. There is said to a "backwardation" on securities when they can be bought cheaper "for the Account" than "for Money." The term is also used to represent the rate of interest, either of so much per share, or so much per cent, charged or allowed for carrying forward a "bear" transaction to the next Settlement.

Bail—

1. *The person* who gives surety for the appearance of another in a court of justice to answer a charge made against him, in order that he may be set free in the meantime; and
2. *The security* given.

Bailee is one to whom goods are delivered in trust upon a contract.

Bailer is one who delivers goods to another in trust.

Bailiff is literally one who has goods placed under his *bail* or control. The modern meanings of the term are—

1. A *sheriff's officer*;
2. An *agent*, or *land-steward*;
3. A person authorized to distrain for rent.

Bailment. A bailment is where goods are delivered to a person in trust upon the understanding that they shall be returned when the purpose for which they were bailed has been fulfilled.

Ballast may mean either—

1. Heavy matter placed in the hold of a ship to keep it steady, such as shingle, sand, gravel, stone, chalk, pigs of lead, etc.;

2. The sand or gravel laid between railway sleepers to give them solidity.

Bank Bill is a bill of exchange issued or accepted by a bank.

Bank Holidays. By an Act of Parliament, introduced by Sir John Lubbock, and which received the Royal assent on the 25th of May, 1871, certain days were appointed for holidays. They are, in England and Ireland, *Easter Monday, Monday in Whitsun-week, first Monday in August,* and *26th of December*, if on a week day. In Scotland, *New Year's Day, Christmas Day*, or, when either of these falls on a Sunday, the Monday following; *Good Friday*, and the *first Mondays in May and August.*

Barratry. Any malicious or unlawful acts committed by the master or crew of a vessel, whereby its owners are exposed to injury. Among these may be classed the sinking or deserting of a ship, delaying or defeating her voyage, smuggling, running off with a ship, or wilfully carrying her out of her prescribed course; or any offence whereby a ship, or her cargo, may be subjected to arrest, detention, forfeiture, or loss.

Barrister is an advocate admitted to plead at *the bar* of the English law courts, corresponding to the title "Advocate" in Scotland.

Battened down. A shipping term for securely fastening down the hatches on deck, so as to prevent a vessel from shipping water in a heavy sea.

Bear. A speculator who sells, for delivery on a certain date, stocks, shares, or other securities which he does not possess, in the expectation of being able to buy them at a lower price before the delivery date arrives, and so make a profit on the transaction. A "*Bear*," therefore, is one who *sells for a fall in price;* and a "*Bull*" one who *buys for a rise in price.*

Beerbohm's List. A daily report which gives particulars regarding the grain trade and markets.

Bill Brokers are persons who engage, as intermediaries, in the purchase and sale of bills of exchange and promissory notes. They sell bills for those drawing on a foreign country, and buy bills for those remitting abroad, charging a brokerage for their trouble. It is their business to know the state of the exchange and the circumstances that are likely to elevate or depress it. Bill brokers are distinct from *discount brokers*, those who procure the discount of bills that have some time to run before they become due.

Bill of Entry is a printed form filled up in writing by a merchant. It is a statement of the nature and value of goods, for the use of the Custom House. If the goods are for export, they are "entered outwards"; if for import, they are "entered inwards." The collector signs this bill when it is a "perfect entry," and this authorizes the searcher to permit the unloading or shipping of the goods.

Bill of Health. A certificate given by the Customs authorities to the captain of a vessel at the time of his leaving a port considered liable to infectious diseases, describing the state of health then prevalent. A *Clean* bill signifies that no contagious disease was known to exist; a *Suspected* bill, that though no cases had been officially reported, they were rumoured to have appeared; and a *Foul* bill, or the absence of a clean or suspected bill, that the port was infected. A clean bill exempts a ship from performing quarantine on arrival at another port, but suspected or foul bills usually condemn it to quarantine for a certain number of days.

Bill of Sale (B/S). A document given as security for a loan, or debt, wherein the debtor transfers the right of certain goods and chattels to his creditor, and empowers him to seize and dispose of them upon the non-fulfilment of certain conditions regarding the periodical repayment of both principal and interest named in the bill.

Bill of Sight. A temporary form of entry at the Custom House, permitting goods to be landed, so that they may be examined in the presence of one of the officials, and a perfect entry made of them, in cases where the consignee, from insufficient advice, is not certain what goods are consigned to him, or the bill of lading leaves him ignorant of the exact description, value, or quantity of goods he is importing.

Bill of Store. A licence permitting the re-importation of dutiable goods which have been legally exported from the United Kingdom.

Bill of Sufferance. This is a bill which permits coasting vessels to sail from one port to another with dutiable articles in bond. Such articles must be landed at a sufferance wharf, or placed in a bonded warehouse, until the duty is paid.

Blank Transfer. A transfer deed with the name of the transferee left blank, sometimes given to bankers and others as a greater security for money lent upon the stocks and shares the transfer represents.

Bond. A bond is a deed by which a person binds himself to pay a sum of money at a fixed time, or under certain conditions. Foreign Governments, Railways, and other public companies, issue Bonds in return for money lent to them. Such documents carry a guarantee to pay a fixed rate of interest upon the sums advanced until the loan is redeemed at the end of a specified time.

Bonds, as referring to Custom House routine,

are of several varieties, of which some of the most used are—

1. Export Bonds for the exportation of dutiable goods taken out of a bonded warehouse, or of goods on which duty has been paid and a drawback is claimed. 2. Removal Bonds for removal from one bonded warehouse to another. 3. Warehouse Bonds which secure duty to the Crown for a period, subject to revocation.

Bond Note. In shipping, a Custom House document giving particulars of dutiable goods about to be exported from a bonded warehouse, and certifying that a bond has been given for them to ensure their due exportation. Bond Notes are also required in all cases where dutiable goods are removed, transhipped, sent from one warehouse to another, or put on board a ship as stores for use during a voyage

Bonded Goods. These are imported goods liable to duty, which are deposited in a Government or Bonded Warehouse until the duty upon them has been paid, or the goods are exported. Such goods are said to be "*In Bond*," a bond having been signed on behalf of the owners that the duty will be paid when the goods are removed for consumption.

Bonded Vaults are underground cellars chiefly used for wines and spirits "*In Bond*," or upon which the duty has not been paid.

Bonded Warehouse. A licensed house where goods liable to duty may be warehoused without payment of the duty until they are removed, or "cleared," as it is called.

Bonus. An *extra* dividend sometimes given to shareholders in Public Companies when the profits made are far above the usual average. Also a periodical addition made to Life Insurance Policies out of the general profits of the company.

Bottomry Bond. A mortgage on a ship, or on the ship and cargo jointly, obtained by the captain or owners of her, and given as a security for the repayment of money advanced to them for the purpose of effecting repairs, fitting the boat out for a voyage, procuring her a cargo, or any other requisite the ship may require, the money advanced, and the interest upon it, being payable on the termination of the voyage.

Bought Notes and Sold Notes. These are the contracts which merchants, brokers, and the like send to each other as soon as a purchase or sale has been arranged between them. They specify the quantity of goods sold (or bought), the price, terms of payment, and all other particulars as to place and time of delivery, etc. They are also known as "Contract Notes."

Bounty. A premium given to exporters by the Government for the encouragement of some particular branch of industry. (See **Drawback.**)

Bourse. A Continental term for a Stock Exchange, or a Money Market.

Breaking Bulk. To "break bulk" is to open a consignment or parcel for the purpose of taking samples or selling part.

Broker. An intermediate agent between the buyer and seller of any commodity. There are many kinds of brokers, their names indicating the particular branch in which they trade.

Bull. A speculator who contracts to buy stocks or shares in the expectation of being able to sell them at a higher price before the next settlement.

Bullion. Gold or silver in bars, dust, or groups (the term "groups" means old coins, medals, or small pieces). The word "bullion," however, is frequently used to denote gold and silver both in a coined and in an uncoined state.

Call Money. Money lent by bankers and others to bill brokers at an agreed rate of interest for repayment at a moment's notice.

Cambist is a term applied to one who exchanges foreign money, or deals in foreign notes or bills of exchange. It is also applied to a book in which the weights, measures, and moneys of different countries are converted into those of one particular place.

Captain's Entry. A provisional entry passed by the captain of a ship, when it is desirable to discharge the whole of the cargo at some particular place, or in cases where the merchant has omitted to pass the prime entry within the prescribed time.

Captain's Protest. A declaration made by the captain of a ship giving details of damage or accident to his ship or cargo.

Carrying Over. A Stock Exchange term for postponing the settlement of an account from one settling day to another, "contango," or "backwardation," being charged or allowed for the accommodation. The same arrangement can be made in most of the other Exchanges, and when securities are thus transferred from one prompt day to another they are said to be "carried" at whatever may be the percentage charged.

Cartel. A combination of works controlled by a board of management which regulates the production and the prices.

Cart Note is a note used by the Customs, and is sent with locked vans when dutiable goods are removed from one place to another, either for shipment or warehousing.

Cash Against Documents. A term meaning that the documents entitling the holder to the possession of the goods they represent will not be handed to him until he has paid the amount due for them.

Cash Credit. An agreement made by a banker permitting persons to draw upon him, in sums as they may from time to time require, up to a certain fixed amount, upon a security and bond being deposited with him to insure repayment of the money actually advanced, with interest upon each sum from the day on which it was made.

Cash Order. An inland draft payable on demand, drawn by one trader on another.

Casting Vote is the vote of the chairman of a meeting, by which he is enabled, when the other votes are equally divided, to *cast* the balance on one side or the other.

Cattle Manifest is a document used by those vessels which carry cattle, and contains full particulars of the cattle shipped on board.

Certificate of Damage. This is a document, in printed form, issued by a Dock Company, when goods are received by it in a damaged condition as they are landed from a ship. It is filled in by the Dock Company's Surveyor, stating that he has surveyed and carefully examined the goods, and that the cause of the injury or damage to them is as stated by him—such as sea damaged. This document is necessary to enable the importer to recover compensation from the underwriters of the goods, or the shipowners, as the case may be.

Certificates of Origin. Documents required from exporters setting forth the place of origin, growth, or manufacture of goods which are being exported to Italy, Spain, South Africa or any other country that requires such certificates. Each country has its own special form which must be signed according to the requirements of the country.

Charges Forward is a term used in accounts when the carriage and other charges are to be paid by the buyer upon receipt of the goods.

Charter. A grant from the Crown conferring special rights, powers, or privileges upon public companies, corporations, institutions and the like, upon certain stipulated conditions being fulfilled.

Chartered Company. A company which carries on business under a special Charter granted by the Crown, as distinguished from one registered under the Companies Acts.

Charter-Party (C/P). A contract made by the owners of a ship and the charterer for the hiring of a vessel, or part of her, for a certain period or voyage, at an agreed rate, stating the number of lay days allowed, the demurrage to be charged for the ship's detention beyond that time, her tonnage, the course she is to pursue, and all particulars necessary to bind the parties to the terms agreed upon between them.

Cheap Money. Money is said to be " cheap " when, the floating supply of gold being plentiful, the bank rate is low, and loans on marketable securities are easily obtainable at a low rate of interest.

Chop. The word " chop " means a brand. It is customary for merchants in the Eastern trade to put a distinguishing " chop " (usually in native characters) upon each of the various makes of goods they deal in, so that the natives who would not understand our marks, may, when ordering, name the " chop " which they desire to have.

Circular Notes (C/N). Letters of credit payable by, and addressed to a number of houses at different foreign towns, issued for the convenience of travellers, and accompanied by letters of introduction. These notes are issued for £5 and upwards, and may be obtained from most London Banks upon depositing with them the amount for which the credit is required.

Clearance Inwards. When a vessel has discharged all her cargo she must, before taking any outward cargo on board or leaving for another port, be " cleared inwards " by a Customs officer, who, after rummaging the holds, etc., issues a certificate to that effect, which shows also the quantities of dutiable goods left on board under official seal. This document is called a Clearing Bill or Jerque Note. Imported goods when delivered from Customs are " cleared."

Clearance Outwards. Every vessel before leaving a British port for a place outside the United Kingdom must clear outwards. This means that the master must attend at the Custom House, produce certain documents, furnish particulars concerning the ship and her destination, and declare that the requirements of the law have been complied with. He is then given a Victualling Bill, showing the quantities of dutiable stores which have been regularly shipped for use on the voyage. This bill, in the case of vessels with cargo, is attached and sealed to a Clearance Label, which, when signed by the proper officer, is the clearance and authority for the departure of the ship.

Clearing. A plan adopted by banks for *exchanging* bills and cheques instead of taking them individually to the banks or mercantile houses upon which they are drawn. The London Bankers' Clearing House is in Post Office Court, Lombard Street, where a clerk from each of the banks attends twice a day with the cheques and bills he may have upon others, and distributes them round the room to the desk allotted to the several banks. Each clerk then makes out a balance sheet, entering on the Dr. side the sum each bank owes him, and on the Cr. side the amount he owes each bank, and the differences are then paid by a cheque on the Bank of England.

Clearing Banks are those banks which are members of the London Bankers' Clearing House

Closing Prices. In newspaper reports, the closing prices of stocks and shares refer to those transactions which have taken place between the hours of three and four, after the official " marking " is closed.

Collated Telegram is one repeated on its way from station to station, at the desire of the sender, and at an additional charge to ensure its correct transmission.

Collateral Security. Any secondary or indirect security; generally applied to the deposit of documents conveying a right to property, so that they may be available in the event of default in the repayment of a loan, or the failure of some personal or other obligation.

Combination. A union of manufacturers and others formed for the purpose of protecting their

own interests, or for regulating the selling price of articles they produce. The object is to have a fixed price, and so prevent competition among them. The term is also used when referring to some of the large Trusts or Combinations, where several firms have been amalgamated into one large Combine or Company

Commission Agents, or **Commission Merchants** as they are sometimes called, buy and sell goods as agents for another, or for foreign or provincial houses, receiving a certain rate per cent for their trouble in arranging the transaction.

Commissioner. A solicitor legally authorized to administer oaths.

Company Promoter. The promoter of a company is the person or one of the persons who does the necessary preliminary work to form or float it.

Compromise. There is said to be a compromise when disputes or differences between parties are settled by some concessions being made on both sides.

Consols. An abbreviation of the term "consolidated funds." Usually refers to consolidated stocks in the British National Debt.

Consular Invoices. These are invoices which have been sighted and signed by the consul of the country to which goods are being shipped. Some foreign states demand that invoices of all goods imported there shall bear the signature of their consul who resides in the country from which the goods are shipped, the consul being entitled to charge a certain fee for each document visé by him.

Contango. The interest, per cent or per share, charged by jobbers for carrying over a "bull" transaction to the next Settlement. There is said to be a "contango" or "continuation" on securities when they are dearer for the Account than "for Money."

Contingent Liability. A liability which can exist definitely only upon the happening of some uncertain event, for example, the liability of an endorser upon a bill of exchange.

Contract Note. A written agreement made by brokers, merchants, and others for the purchase or supply of certain goods at a named price, and upon the specified terms and conditions. They are sometimes called **Bought Notes and Sold Notes** (*which see*)

Co-partnership. A profit-sharing scheme in which the employees are not only entitled to a share in the profits, but also to a voice in the management of the concern.

Copyright. Copyright means the sole legal right to print or publish anything which belongs to the author or his assigns.

Corporation is a body or society authorized by law to act as a single individual, and to perpetuate its existence by the admission of new members.

Cost Book Principle. The cost book principle is a plan used in conducting mines in some parts of the country. The receipts and expenditure are kept closely posted, and the books are frequently balanced for the purpose of distributing profits, or of raising further capital, as the case may be, a meeting of those interested being called at stated intervals for that purpose.

Cost and Freight (C. & F.) When goods are sold "Cost and Freight," it means that no insurance upon them is paid, but the price includes only the cost of the goods and the freight and charges upon them.

Cost, Freight, and Insurance (C.F.I.) means that the price charged includes the freight and insurance charges as well as the cost of the goods.

Counterclaim is a cross-claim which does not necessarily arise out of the same contract or matter out of which the claim arose, but for which a party sued might bring an independent action, and under which a party sued, if successful, gets his costs of action even though this claim be also successful.

Coupon Sheet. A connected series of coupons given in advance with transferable bonds, in order that they may be cut off from time to time and presented for payment as the dividends fall due. The last portion of a coupon sheet is a form of certificate, called a "talon," which can be exchanged for a further series of coupons as soon as those on the coupon sheet have all been presented.

Covering Note. A form used by insurance companies undertaking to indemnify the insured should any damage happen between the time the insurance is arranged and the issue of the policy.

Customs. Customs are the taxes imposed by Government upon the importation or exportation of certain goods and commodities; they are levied as a means of revenue for the country. The taxes on certain articles produced, or manufactured, and consumed in the country, and the charges for licences to deal in, or use certain articles, or carry on certain trades and professions, are termed "Excise."

Customs Bills of Entry are daily lists issued by the Customs authorities (to merchants and others subscribing), containing a summary of British shipping, useful for general information.

Customs Declaration. The sender of every parcel by post to or from the Channel Islands, any British colony or foreign country, is required to make out a Customs Declaration on a form provided for that purpose. This form must contain an accurate statement of the *nature and value of the* contents of the parcel; the *date of postage;* and the *net* weight of the articles contained in the parcel. If the parcel is destined to the Continent of Europe, the Customs Declaration should be filled up in French and English, and accompanied by a Dispatch Note.

Customs Entry. A list given to the Customs authorities by the importer or shipper, showing the weight, value, and description of goods to be landed or shipped.

Dating Forward. The practice of dating an invoice a considerable time in advance of the date on which the goods are delivered.

Day-to-Day Loans (sometimes quoted in the newspapers as "Day-to-Day Accommodation"). These are sums of money borrowed by bill brokers, stockbrokers, and others at a fixed rate of interest for a *single* day, but the amounts may be *renewed* from day to day if both borrower and lender agree to continue the loan for another day.

Dead Freight. In the event of a person not shipping the goods he has engaged to ship by a certain vessel, the shipowners can claim upon him for the amount the freight would have been had the goods been shipped. The amount claimed would be called "Dead Freight."

Dead Letter. An undelivered and unclaimed letter; or one that has lost its force by lapse of time. A law is a dead letter law which, though unrepealed, is never enforced or observed.

Dead Security. An expression given by financiers to collieries, mills, manufactories, landed property, mines, machinery, and such-like properties which are worth nothing (as a security) if not worked.

Dead Weight. That portion of a ship's cargo paying freight according to its weight; such as coals, iron, coke, flints, and similar heavy goods, either in bulk, or packed in casks or cases. All vessels carry either a certain portion of dead weight, or take in ballast to trim the ship, in order to steady her and prevent her from pitching and rolling in the water.

Dear Money. Money is said to be "dear" when the floating supply of gold is scarce, and advances cannot be obtained, even on good securities, except at a high rate of interest, owing to a pressure in the money market, or a high bank rate.

Delivery Order. An order from the owner of goods lying at a warehouse, dock, or wharf, requesting the superintendent to deliver either the whole, or a portion of the goods, to the bearer of the order, or the party named thereon by endorsement. A delivery order must bear a penny stamp.

Demand Draft (D/D). A bill of exchange payable on demand, i.e. it is payable as soon as presented, and does not require accepting.

Demurrage. A charge of so much per day made by the owners of ships and barges for their detention beyond a stipulated time. Legal holidays and Sundays are not included in demurrage charges. The term is also used for a charge of so much per day made by railway companies for detaining their horse-boxes, wagons, trucks, and carriages beyond a certain time.

Demy is the name given to a size of *writing paper* 22 in. by 15½ in., of *printing paper* 22 in. by 17½ in., and of *drawing paper* 22 in. by 17 in.

Devisee is one to whom real estate is bequeathed.

Devisor is one who bequeaths real estate to another.

Direct Taxes are those fixed taxes periodically called for by the tax-gatherer; while the **Indirect Taxes** are those which refer to Customs and Excise, exports, imports, and manufactures.

Discount Houses are houses whose chief business consists in discounting bills of exchange.

Dispatch Money. A chartering term for an allowance of so much per day or so much per hour sometimes granted by the owners of a vessel to the charterer when the latter has loaded or unloaded a vessel before the stipulated "Lay days" are over.

Distrain means to seize goods for debt.

Dock Dues. A toll charged on vessels and goods entering or leaving a dock. They are levied as a means of revenue and of maintaining and keeping the docks, quays, landing-stages, etc., in repair.

Dock and Town Dues. Dock and Town Dues are peculiar to the port of Liverpool. They are chargeable on most goods exported from, or imported into that city, the town dues being levied, it seems, for the use of the *port*, whether a vessel carrying goods goes into the dock or not.

Dock Warrants. Warrants for goods in charge of a dock company, specifying the ship they were imported in, the mark, date of entry, the net and gross weight, to whom the goods are deliverable, and the date warehouse rent commences, etc.

Docket. To docket is to indorse letters and documents with the date of receipt, and date of reply, and sometimes with a summary of their contents.

Domiciled Bill. A bill not made payable at the residence or place of business of the acceptor, but one whereon the place of payment is inserted at the time of his acceptance.

Dormant Balance. Money in a bank to the credit of a customer's drawing account which has been carried over from time to time and in respect of which account there have been no recent dealings.

Dormant Partner. This term is sometimes used for, and has the same meaning as a Sleeping Partner.

Drawback (Dbk.) is a term used to signify the sum paid back by Government upon certain classes of goods exported, on which duty has already been paid. The object of this is, obviously, to enable the exporter to compete in the foreign market on an equal footing with merchants of other nations.

Drug in the Market. Any unsaleable commodity that lies on hand. Goods of any description are said to be a "drug in the market" when the supply is so great as to cause them to be quite unsaleable.

Dry Dock is used for the examination and repair of ships, which are admitted at high water, and left dry by the ebbing of the tide before the gates are closed; or the gates are closed as soon as the ships are admitted, the water being let out by pulling up the sluices.

Dry Goods. This term more especially applies to

tobocco, snuffs, cigars, drugs, dyes, spices, coffee, tea, chicory, cocoa, dried fruits, plums, prunes, raisins, currants, figs, etc. In America, the term means drapery goods.

Dunnage. Any article used in stowing a ship's cargo to protect it from damage during the voyage

Earnest or **Earnest Money.** A sum of money advanced by a purchaser to a seller to bind an oral bargain between them.

Embargo. A Government order to prevent ships from loading or unloading certain goods, or from entering or leaving a port, sometimes enforced in times of war. In a legal sense, an authoritative order to prevent the removal of property, pending some judicial proceeding against the owner.

Endowment. A fixed sum of money, payable at the end of a certain number of years, in the event of a person surviving the given time.

Entry for Warehousing. A Custom House document issued when dutiable goods are imported, but are to be stored in a Government or Bonded warehouse until required for use or for exportation. It is filled in by the importer, and fully describes the goods, so that they may be removed in the regular way from the import ship to the warehouse desired.

Entry Outwards. Before a ship begins loading cargo for a foreign port she must " enter out " at the Custom House. The master or agent puts in a form stating the proposed destination, etc. The outwards entry is called a " Specification "

Equity of Redemption. The right of the mortgagor to redeem the mortgage on payment of the debt, interest, and costs after the time the repayment has elapsed.

Estate Duty. A duty imposed upon the principal value of all property, real or personal, settled or not settled, which passes on the death of any person.

Estimate. An approximate calculation of the charges or cost of any undertaking, given by parties who wish to contract for the supply of certain goods, or for repairs, or other work to be done.

Ex all. Without dividend, bonus, or return of capital, and exclusive of the right to claim any new stocks or shares about to be issued.

An **Exchange** (**Exch.**, or " 'Change," as it is usually called). A place where merchants and dealers meet to transact business. Most of the larger trades have exchanges of their own, among which may be noticed the Coal Exchange, Corn Exchange, Hop Exchange, Metal Exchange, and Wool Exchange.

Exchequer Bills. These are promissory notes issued by the authority of Parliament; they represent the principal part of the unfunded debt of the country. Exchequer bills are issued for sums of £100, £200, £500, and £1,000, and they bear interest at so much per cent per day (generally the current market value of money at the time they are issued), from the date of issue, to the day on which they are called in.

Exchequer Bonds. These are Government securities forming part of the unfunded debt of the country; they are of a more permanent character than Exchequer bills, as they run for a much longer period. The bonds bear interest at so much per cent per annum, payable half-yearly, until the expiration of the time for which they are issued, and they are then subject to redemption at par.

Ex Coupon. Without the interest coupon.

Ex Dividend (abbreviated to **Ex div.** or to **X.D.**). Without the dividend, due or accruing.

Ex Drawing. This term is used when Bonds are sold without any benefit that may arise from a drawing about to take place. (See **Cum Drawing.**)

Executor is a person appointed by a testator to see that his will is carried into effect. Feminine form, *Executrix*.

Ex Interest (abbreviation **Ex Int.**). Without the interest due or accruing.

Ex New. Without the right to claim any new stocks or shares about to be issued.

Ex Officio. By virtue of office.

Export List. An alphabetical list of headings under which exported goods are classified by the Customs for statistical purposes.

Ex Ship. A mercantile term meaning that goods are only sold free out of the ship, and that the buyer must provide his own barge in which to receive them, the seller's responsibility ceasing as soon as the goods have left the slings of the ship. **Free Overside** has the same meaning.

Ex Warehouse (out of the warehouse). When goods are sold " ex warehouse," it means that the buyer must supply his own conveyance in which to receive the goods as they leave the warehouse door.

Face Value. The face value of bonds, stocks, shares, certificates, etc , means the value printed on their face—the amount they are issued for, in contradistinction to their market value, which, from a variety of causes, may be higher or lower than the face value.

Factor. A factor differs from an agent in that he has the goods he sells in his possession, and deals in his own name when buying or selling goods for a principal. The term is still used for certain home trades, as Corn Factor, etc.

Failure. The suspension of payments by traders, bankers, and others, who are unable to meet the demands made upon them, pending an examination of their accounts and a meeting of the creditors concerned.

Fidelity Guarantee. A guarantee by which a surety is responsible for the honesty of a person employed in a particular office or vocation.

Fiduciary Loan is a loan granted without security upon the confidence of the honour of the borrower.

Fiduciary Note Issue is an issue of notes by banks or governments without any reserve of bullion to meet them, but on faith that they will be paid on presentation.

First-class Paper. In the money-market, a phrase given to bills, drafts, promissory notes and similar documents which bear the names of well-known houses or financiers as acceptors or endorsers. Consols, Exchequer Bills and Bonds, and Treasury Bills and Bonds, being guaranteed by the Government, are included under this head.

Floating Policy. A policy for a certain amount, insuring goods which are not all in one place, but are spread over a certain district or area, so that the goods, wherever they may be deposited, are covered either wholly or in part, according as their aggregate value may happen to be, either under or above the sum insured.

Foolscap (Fcp.) means a sheet of paper $17\frac{1}{2}$ in. by $13\frac{1}{2}$ in., so called from having formerly borne the water-mark of a fool's cap and bells, which is said to have been substituted by Cromwell for the royal arms.

Force Majeure. Circumstances or events which no human precaution could have averted, or which no fraudulent intention could have produced; and those dangers and accidents which are beyond human power to control or oppose.

Foreclose is to take actual possession of an estate or other thing mortgaged, with the view of securing repayment of the loan.

Free Alongside Ship (abbreviated **F.A.S.**). A shipping term used when goods are only sold for delivery free alongside the ship; the buyer must attend to their being put on board, and pay the dues or the charges for slinging, should any be incurred.

Free of all Average means that claims for general and particular average cannot be recovered under an insurance policy containing this clause. Such a policy insures against total loss only.

Free of Particular Average (abbreviated **F.P.A.**) As some goods are extremely liable to damage, and others are rendered almost worthless from the effects of sea-water, or the heat of warm climates, it is customary for underwriters to insure such goods only *free of particular average* (f.p.a.), and when this exception is made they are liable only "*in case the ship, craft, or any conveyance, or the interest insured, be stranded, sunk, burnt, on fire, or in collision,*" when a claim for particular average may be made notwithstanding the clause.

Free on Board (abbreviated **F.O.B.**). When goods are sold "F.O.B.," it means that the seller puts them on board the ship free of all expense and shipping charges to the buyer.

Freight. The sum paid for the hire of a ship, or a charge for carrying goods by water.

Freight Notes. Statements sent out by shipbrokers to the various shippers of goods showing the amount due for freight upon goods which have been taken on board ship.

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Freight Release. An official document given by shipbrokers, or an endorsement by them on the bill of lading, authorizing the officer in charge of the ship to give up possession of the goods, the freight upon them having been paid.

Futures. Goods for shipment at some future time. The term usually refers to foreign produce to be shipped. Importers, merchants, and the like speculate in "futures" of corn, cotton, hops, tallow, etc., in the same way that speculators on the Stock Exchange operate "for the account."

Gazette. The *Gazette* is an official publication issued by Government authority, containing the current legal and state notices; such as a summary of the cases passing through the Bankruptcy Court, a list of the Government appointments, notices of the dissolutions of partnerships, promotions in the navy and army, and a general record of important passing events, collected for public information.

General Average (G.A.) is a proportionate contribution levied on the owners of a ship, and the owners of her cargo, according to value, to indemnify the party who has incurred a loss, when part of the cargo, or vessel, has been *voluntarily* sacrificed, or any loss or expense incurred, for the preservation of the rest. This is the risk covered by all ordinary insurance policies.

Gilt-edged Securities. Securities of the highest class.

Hammered. When a member of the Stock Exchange is unable to comply with his engagements, the head-waiter strikes three blows with a mallet upon the rostrum of the "House," and briefly announces the member's default. A defaulter is thus said to be "hammered," and his name is immediately posted on a board devoted to the purpose of showing those members who have been expelled from the Stock Exchange owing to their being unable to meet their liabilities.

Harbour Dues. Sums paid by ships for entering certain harbours, and for the use of landing-stages, etc.

Haulage is an exclusive charge made by Railway, Dock, and Canal Companies for the use of carriages or trucks, the use of a line of rails, or the haulage of loaded or empty trucks or wagons between respective points It does not cover the services of loading and discharging the trucks.

Import List. An alphabetical list of headings under which imported goods are classified by the Customs for statistical purposes, showing the detailed description required for each class of goods.

In Ballast. When a vessel leaves a port without a cargo she is said to be in ballast, as she carries some kind of weight—gravel, sand, etc.—to give her stability.

In Bond. Dutiable goods warehoused in a Government store until the duty is paid.

Inscribed Stock. By Inscribed Stock is meant Stock for which no actual Certificates are granted to the holders, but their names and the amount of Stock they hold are inscribed in a Register kept for the purpose, at the Bank of England, the Office of the Crown Agents for the Colonies, or some other Bank where the Stock was issued. Such Stocks can be transferred only by the holder (or his representative by Power of Attorney) signing the Register that he has assigned his right to some other person.

Insurance Broker. A person who acts as an agent for effecting insurance on ships, cargoes, etc.

Interest Warrants. Orders for the payment of periodical dividends on public stocks, usually posted to the holders of registered and other stocks as the interest falls due.

In Transitu (abbreviated *in trans.*). In the course of transmission, or on the way to another place.

Inventory. A list of goods, fixtures, etc., intended for sale. A list of all household goods and effects kept for reference.

Jettison. The act of throwing overboard part of a ship's cargo, or cutting away her masts, sails, etc., for the preservation of the rest, in cases where a vessel requires lightening to enable her to weather a storm, or get off a rock, or shallow. All loss which arises in consequence of extraordinary sacrifices made for the preservation of the ship is borne proportionately by all who are interested.

Jobbers. Stock dealers who carry on business with the public and with other jobbers through the medium of Stockbrokers.

Landing Accounts. Accounts taken by the various dock companies and warehouse keepers of all goods landed on their wharves, showing the ship the goods were imported in, the date of entry, the weight, mark, number of packages, and the date rent commences, etc.

Landing Book is a book kept by dock companies and warehouse keepers in which is recorded the net and gross weight, the description and exact condition of goods as they are landed and received on their wharves, and from it the Landing Account (afterwards sent to the owner of the goods) is made up.

Landing Order. A Custom House document addressed to the chief officer of a ship (after the importer has passed his entry and paid the duty, if any, upon the goods he is importing), authorizing him to deliver the goods overside so as to permit of their being landed. The goods are inspected by the Searcher as they leave the ship, and the landing order is signed by him as showing that the entry has been found correct.

Landing Weight. The actual weight of goods on their being landed from a ship. This often differs considerably from the shipping weight, owing to pilfering, leakage, and other causes.

Lay Days. A shipping term for the number of days allowed for loading and unloading ships, as agreed upon by the owners and charterers, or the owners and freighters, as the case may be.

Lease. A document relating to the letting of offices, houses, buildings, or land for a term of years.

Leasehold is property which is held on lease.

Letter of Credit (L/C). A letter from bankers or mercantile houses, addressed to their agent or correspondent either at home or abroad, requesting him, upon the credit of the writers, to advance the bearer a certain or an unlimited sum of money and charge the amount advanced to their account, or draw upon them, as may be agreed upon in the body of the letter.

Letter of Indemnity. A letter sent by a manufacturer to merchants and others, guaranteeing them against any loss or claim that may arise in consequence of goods not having been shipped "in good order and condition," or the number of packages received having been disputed, and the mate having inserted a clause to that effect upon his receipt, the object being to prevent the clause appearing on the bills of lading.

Letters of Administration. The authority granted by the court to a person who administers the estate of a person who dies without leaving a will. In most cases Letters of Administration are granted to a near relative of the deceased, but if the proper person to take out Letters of Administration neglects to do so, any other person who is entitled to make a claim against the estate can apply for Letters of Administration to be granted to him.

Letters Patent. A privilege granted under the Crown seal, giving a person the sole legal right to make use of any invention or discovery for a term of years, thus protecting him against piracy. They are called "Letters Patent" because they are left open, and are addressed to everybody.

Lien. A legal right to detain goods belonging to another until the charges upon them have been paid, or until some pecuniary claim against the owner has been satisfied.

Light Dues. These are tolls levied on a ship by the Customs towards the maintenance of the lights, beacons, buoys, etc., shown for her guidance and warning while navigating certain rivers and roads.

Lighterage. A charge for the conveyance of goods by water, in either a barge or a lighter.

Liquidated Damages are damages the amount of which has been ascertained or agreed upon. In a charter party the Liquidated Damages for the non-performance of the agreement is usually the value of the estimated amount of freight.

Lloyd's is the name given to a set of subscription rooms used by underwriters for the transaction of their business. Lloyd's is a centre point in the metropolis for all sea insurance business, and every species of intelligence respecting shipping is forwarded there from its agents in all parts of the

world, thus affording considerable facilities to the maritime interests of the country.

Lloyd's Registry is an establishment for the purpose of surveying and classing ships so as to afford to underwriters and others interested an independent guarantee of the quality and condition of ships offered for insurance or employment. The establishment publishes annually a book, entitled *Lloyd's Register of British and Foreign Shipping*, containing the names and description of all British ships, and of such foreign ships as are classed in the Register.

Lock-out. A lock-out is where an employer locks out his workmen and prevents them from returning to work.

Locum Tenens. A deputy or substitute, or one who acts for and represents another during his absence.

Manifest. A detailed account of a ship's cargo, sent by her owners or brokers at the port of shipment to their agents abroad. A copy, or its equivalent, must be furnished to the Customs within six days of the vessel's clearance outwards.

Marked Cheques. Cheques which have been marked by the banks upon which they are drawn as sure to be paid when presented.

Market Rate of Discount. The rate charged by bankers, bill brokers, and others, for discounting bills of exchange. It is usually *lower* than the bank rate, owing to competition, and the desire of the open market to get a good share of the business offering.

Market Report. The report describing the state of a market and the current prices.

Mate. The deputy who takes the command of a ship in the absence of the captain. In large vessels there are several—first, second, third, and fourth mates being carried, according to the size of the ship.

Mate's Receipt. A receipt given by the mate of a ship for goods which have been received on board. This receipt is afterwards given up to the shipbroker in exchange for the bills of lading.

Measurement Goods. Goods on which freight is charged by measurement, instead of by weight, 40 cubic feet being reckoned to the ton. Light goods in cases or bales are usually charged for in this way, as they take up so much more space than heavy goods.

Middlemen may be agents, brokers, merchants, or warehousemen.

Money Market. This is a general term for all transactions relating to money; such as the dealings of bill brokers, capitalists, money-changers, bankers, and bullion dealers, the foreign exchanges, etc., by which the current value of money is gauged and regulated.

Monopoly is an exclusive right secured to one or more persons to carry on some branch of trade or manufacture, in contradistinction to a freedom of trade or manufacture enjoyed by all the world.

Moratorium. An extension of time allowed under exceptional circumstances by the Government of a country for the payment of all just and lawful debts. The expression is sometimes used commercially, and it then means that a creditor has granted his debtor—particularly with bills of exchange—an extension of time for payment, in order that he may collect the necessary funds to meet his engagements.

Mortgage is a conveyance of property as security for a debt, which is lost or becomes *dead* to the debtor if the money or the interest due thereupon is not paid on a certain day.

Mortgagee is one to whom a mortgage is made or given.

Mortgagor. One who grants a mortgage.

Muster. A sample or collection of samples taken from the bulk of any article of merchandise, and serving as a specimen of the whole. The expression to "*pass muster*," therefore, means that the bulk is quite equal to the sample in every way, and that it will pass inspection.

No Funds is a term sometimes put upon cheques by bankers when cheques have been paid in to a bank for collection, but are returned by them to the senders as the party giving the cheque has no funds to meet it.

Nominal Partner. A person who has no real interest in a business carried on under, or styled with his name, but who allows his name to be used and held out to the public as one of the firm, in cases where a change of name might damage the reputation or business of the concern.

Nominal Price. A price given as the nearest market value of goods and securities which are but little dealt in, it being understood that the price exists in name only, and that business might or might not be done at it.

Notary Public (N.P.). A specially authorized person who attests, copies, or translates certain documents and writings, or proves their validity for the purpose of giving them effect abroad, and whose business it is to present dishonoured bills of exchange, and protest and note their non-acceptance or non-payment.

Novation. The substitution of a new party to a contract in place of the original debtor. A creditor can always assign his rights to another person, subject to the equities, but a new debtor cannot take the place of the former without the consent of the two original parties and the substitute.

Octavo. A book, or sheet of a book, having eight leaves to the sheet. Contracted form 8vo, Lat. *octo*, eight.

Options. A mode of speculating where a person pays down so much per cent (or so much per share)

for the *option* to buy or sell so much stock (*or so* many shares), at a fixed price, on a certain day, thus limiting his liability or possible loss to a fixed amount. The option to *buy* is termed a "*Call*"; the option to *sell* a "*Put*"; and the double option to *buy or sell* a "*Put and Call.*" The "Put of More" means that the *seller* of a *stated* amount has the *option* of selling double the quantity, the "Call of More," that the *buyer* of a *stated* amount has the *option* of buying twice the quantity.

Outside Brokers. A name given to stockbrokers who are not members of the Stock Exchange.

Over-Capitalized. A company is said to be "over-capitalized" when the earning capacity of the concern is not large enough to pay interest on the capital. For instance, if the earnings of a business were sufficient only to pay interest on £20,000 (or shares) a capital of £40,000 would be excessive, and the concern would be "over-capitalized."

Overtrading. Speculating or purchasing beyond one's capital; or trading beyond one's available means actually at command.

Particular Average (P.Av.) This is any loss arising from the partial damage of a ship or cargo from the common perils of the sea and navigation incident to a voyage, and not involving their general safety. Such a loss rests where it falls, and is borne by the owner or insurer.

Patent. A privilege granted by Letters Patent to an inventor, giving him the sole right to use his discovery for a term of years, and so protect him from piracy.

Patentee is one who holds a patent.

Penalty Clause. A clause inserted in a contract specifying a sum of money to be paid by the party at fault in the case of non-fulfilment of the conditions in the contract.

Per Contra is a term used to mean *on the other side.*

Per Diem means by the day.

Perishable Goods mean such articles as fruit, fish, butter, game, poultry, meat, etc., which, if not delivered quickly, would go bad or perish.

Per mille means *by the thousand.*

Piece Goods really means those goods which are sold by the piece, as handkerchiefs, sheetings, cambrics, canvas, carpets, chintz, cretonnes, etc., such articles being described by the Customs as Cotton Piece Goods, Linen Piece Goods, etc., according to the raw material from which they are made.

Plaint is the exhibition of an action in writing against another person termed the defendant.

Plaintiff is a complainant in a court of law, that is, one who commences and carries on a law-suit against another.

Pool. A combination of persons who put their money together to operate on a large extent for their own benefit.

Post-date means to date anything after the real time.

Post Entry. When a merchant, after having passed an entry for and paid duty on goods, finds that his entry is too small, he must make a post or additional entry for the overplus.

Power of Attorney is a legal document empowering one person to sign and act for another, either generally or for a special transaction.

Précis is an abridged statement, abstract, or summary of a letter or other document.

Pressure in the Money Market. A pressure in the money market means that there is a difficulty in getting money, either in discounting bills, or obtaining loans upon Government or other good securities, caused by a high bank rate, an unfavourable rate of exchange, and other affecting influences.

Primage. This was formerly a gratuity given by shippers to the captain of a ship for his care and trouble in loading and taking charge of goods while on board. It is now an additional percentage to the freight for the use of the cables and ropes in loading and unloading cargo. The rate varies according to the usages of different ports.

Primage and Average Accustomed. In this phrase, which is usually inserted in a bill of lading, the word "Average" means a *pro rata* charge levied by the ship, on the owners of its cargo, to cover the expense of lights, pilotage, wharfage, etc. It is now generally included in the charge for primage.

Prime Entry. An entry of goods made from the particulars given on a bill of lading, invoice, or other document. If necessary a *Post Entry* may be made after the goods have been landed and the exact quantity, measure, or weight has been ascertained.

Probate may mean

1. Proofs of a will before the proper court;
2. The official copy of a will with the certificate of its having been proved.

Prompt. The date fixed by contract for the payment of goods, sold on credit. Also the date upon which produce and other goods or securities will be *taken up* and paid for.

Proximo (Prox.) is the next approaching month, or if any month is named, the next month of that name.

Proxy is

1. One who acts for another; or
2. The document by which he is permitted so to act.

Quarantine. A regulation in force at most foreign ports (sometimes enforced in England as well), cutting off and forbidding, for different periods, all communication between ships and the shore, on their arrival from places commonly affected with contagious diseases.

Quarter Days are the last days of each of the

quarters of the year on which payment of rent or interest becomes due.

The **English Quarter Days** are

1. Lady Day, 25th March ; 2. Midsummer Day, 24th June,
3. Michaelmas, 29th. Sept ; 4. Christmas Day, 25th Dec.

The **Scottish Quarter Days** are

1. Candlemas, 2nd Feb. ; 2. Whitsun, 15th May ;
3. Lammas, 1st August ; 4. Martinmas, 11th Nov.

Quorum. The legal number of a committee or board of directors to hold a meeting and transact business, as arranged by the rules of the society or company they represent.

Quotation. The price and terms upon which a person is willing to enter an order. It is usual for merchants and others, before placing an order, to send out *inquiries* for the articles they wish to buy, and the prices they receive are termed "Quotations."

Rack Rent is an annual rent extended to the full value of the thing rented.

Railway Clearing House. The place where the charges to be paid or received by one company to another are calculated and apportioned, when one company runs over another's line, or uses their service with either passengers or goods.

Re-insurance. A sub-insurance effected with others, by underwriters who find that they have incurred too great a liability, or who have become dissatisfied with the nature of the risks they have contracted to take upon themselves.

Reserve Price. The lowest price at which a person is willing to sell his goods or property by public auction. The term also applies to the price placed upon exhibits in shows or exhibitions ; and in cases where the exhibit is not really exposed for sale, the price placed upon it is often purposely made excessive or absurd.

Retainer is a fee paid to a lawyer to conduct or defend a case.

Reversion is the right to property after the death of the person at present in possession, or some other particular event.

Rider is an addition to a document after its completion on a separate piece of paper, or an additional clause to a resolution or verdict.

Rig. To "rig" a market (a Stock Exchange term) means forcing up the price of any security without regard to its real value. Rigging a market is usually effected by secretly buying up such a quantity of any security as will produce an artificial or a temporary scarcity, until the price (owing to the demand being greater than the *apparent* supply) is enhanced far above the real value of the security, thus enabling the "Riggers" to re-sell their holdings at a forced profit.

Ring. A "Ring" is a combination of capitalists, formed for the purpose of manipulating certain produce (or securities) which they consider is far below its real value.

Royalties may mean

1. Dues paid by a person or company working a mine to the owners of the land for the privilege of working the ore, coal, etc.
2. Payments made to a patentee for the use of his patent.
3. Allowances made by a publisher to an author for the privilege of publishing and selling his book.

Rummaged. A ship is said to be "rummaged" after she has been properly searched by the Custom House officials.

Rummaging is the searching of a ship by the Custom House officers to see that neither dutiable nor prohibited goods are concealed on board.

Run on a Bank is an unusual or sudden demand for payment of notes and deposits caused by fears that the bank cannot meet its liabilities.

Running Days. A chartering term for consecutive days, including Sundays, the ship, therefore, not being limited to working days.

Sale Warrant. A warrant issued with a Weight Note when goods are sold for payment by a deposit at the time of sale, and the balance by a prompt date, to be exchanged for the actual warrant for the goods as soon as the balance of the purchase money has been paid.

Salvage may mean

1. Money paid to those who assist in saving a ship or goods from the dangers of the sea.
2. The goods so saved.
3. Property saved from a fire on land

Sampling Orders. Orders issued by parties having goods lying at the docks, or stored at a warehouse, authorizing the wharfinger or warehouse keeper to permit samples of them to be taken away.

Seaworthy. A marine expression indicating that a ship is in good repair, has a proper master and crew, is well and sufficiently rigged, and fitted in every way to proceed on her contemplated voyage.

Sellers Over. A market term meaning that there are sellers, but no buyers, or more sellers than buyers.

Set-off. A cross-claim arising out of the same matter out of which the claim arose, by which one person seeks to reduce the claim of another, but in respect of which he could not bring an independent action.

Ship Brokers. Agents appointed by the owners to transact the business of ships, and obtain cargo and passengers. Ship brokers effect insurances on merchandise, arrange dates for the shipment of goods, and the rate of freight to be paid for them ; issue bills of lading, charter parties, etc., attend to the purchase or sale of vessels, and the payments to be made with regard to them, etc.

Ship's Articles. The terms and conditions which seamen sign and agree to be bound by when taking their places on board ship. The articles, binding both master and seamen, specify the

amount of wages to be paid, the food to be given, the sailor's position on board, the length of time for which they are shipped, and the stipulated conditions which they agree to abide by during their engagement.

Ship's Certificate of Registry. A document which states her name, build, and tonnage, and the names of the owners and master. This certificate shows that the boat is enrolled in the Custom House books which entitles her to enjoy the privileges of British-built ships, and forms a proof of the nation to which the vessel belongs.

Shipping Bills are

1. Customs documents used in cases where drawback is claimed upon dutiable goods transhipped either for re-export or for use on board during the voyage;

2. Documents giving particulars of the goods and exporting vessel, used chiefly for statistical purposes.

Soft Goods. Goods manufactured of wool or cotton.

Specie. Coined money of any description. The term is used to distinguish coins from paper money.

Specie Point is that price above the par of exchange at which it is cheaper to transmit bullion than to buy bills.

Stag. A Stock Exchange expression for a person who applies for shares in any new company with the sole object of selling as soon as a premium is obtainable, and never intending to hold or even fully subscribe for the shares. Such a person is said to be "stagging" the market.

Stet. When an entry or a figure has been crossed out by mistake the term "stet" indicates that it should remain as it was originally written or printed.

Stevedores. Experienced men who superintend the stowage of a ship's cargo, which, usually being of such a mixed nature, requires great care in stowing so as not to shift or get damaged during the voyage.

Stop. A "stop" is usually put upon bank notes, cheques, bills of exchange, bonds, and similar documents, when they have been lost or stolen. The "stop" consists in writing a letter to the banker from whom the documents are payable, giving him instructions not to pay them, or not to do so without inquiry.

Surcharge. A sum of money charged against an accounting party beyond which he admits to have received or which he has improperly expended.

Surety is one who is bound by a legal document, called a bond, that

1. He will be answerable for the debt of another person if it is not paid when due; or

2. He will be responsible for the performance of some duty undertaken by another.

Talon. A certificate attached to transferable bonds (usually the last portion of the coupon sheet), to be exchanged for an additional series of coupons as soon as those on the coupon sheet have all been presented and paid.

Tape Prices. This term, often seen in the financial newspapers, means the Stock Exchange, and other market quotations, as recorded on the "tape" of the Exchange Telegraph Company's instruments.

Tare. An allowance for the weight of the case, cask, bag, chest, or other package in which goods are secured.

Telegraphic Transfers (or **T.t.'s**). A daily rate quoted in the money market for transferring money by cable from one country to another.

Tellers. A banking term for the cashiers who receive and pay out money over the counter of a bank.

Trade-mark. A trade-mark is some name, description or device stamped or placed upon articles by the manufacturer so as to distinguish his make from articles of the same class made by other producers. A trade-mark can be protected by registration.

Treasury Bills. These are bills issued by the Treasury in return for sums of money lent to the Government by private individuals.

Tret. An allowance of 4 lb. on every 104 lb., on certain articles of merchandise for dust, waste, etc.

Trust. Money or property held by specially appointed persons, called *trustees*, for the benefit of others, or to be used for certain purposes, is said to be held "in trust." The term is also used for the large combination of business concerns which are often called "Trusts."

Trust Deed is a deed conveying property to a trustee.

Trustee. A person appointed by will or by law to realize or manage the property of another.

Ultimo (Ult.) is the last month.

Ultra Vires. A company is said to act *ultra vires* when it exceeds the powers granted to it by its Memorandum of Association.

Umpire. A third person appointed to decide an arbitration case in the event of the arbitrators failing to agree.

Underwriter. A marine insurer, so called because he underwrites or subscribes his name to each policy he is concerned in, as a guarantee that, in case of loss, he will be answerable for the amount subscribed by him.

Underwriting Capital. An undertaking, for a consideration, on the part of those who agree to take up and pay for the capital issue of a company if the general public do not respond and apply.

Victualling Bill. A document given to the Customs by the captain of a ship, containing a list of bonded or drawback goods taken on board for

use as stores during the voyage. When signed by the Customs it is one of the captain's clearance papers.

Visé. An Official endorsement on a passport by the Consul of the country in which one wishes to travel; or an indorsement by him on any other document.

Voyage Policy is a policy which insures a ship or cargo for a certain specified voyage.

Wall Street. The New York Stock Exchange being situated in Wall Street, the prices of securities there are frequently spoken of as transactions in Wall Street.

Warehouse Keeper's Orders are orders addressed by the Customs to the warehouse keeper, at a warehouse where dutiable goods are lying, authorizing him to deliver the goods on which duty has been paid for home consumption; or authorizing him to deliver dutiable goods for exportation, a bond note having been signed for them.

Watering Stock. Increasing the capital of a company by creating new stock, without making any additional provision for paying dividends on the new stock issued.

Way Bill is a document containing a list of passengers or goods carried by a public company.

Wharfinger. A clerk who superintends at a wharf, or the owner or occupier of a wharf.

Wharfinger's Receipt. This is a receipt given by a Wharfinger for goods which have been received on his quay ready for shipment.

Without Engagement. A term sometimes used by merchants when quoting the price of certain articles liable to sudden fluctuations. It means that the quotation they give is the market price of the day, but they do not bind themselves to accept an order at it.

Without Prejudice. A term used in correspondence or in making offers which renders such correspondence or offers incapable of being used as evidence.

Writ is a document by which a person named therein is summoned to attend at a certain place, or to perform a certain act under penalty.

Years' Purchase. Land and other property is often said to be worth so many "years' purchase." The meaning of this is, that the price asked for the property is so many times its annual rental.

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